# Annual report 2017/18

Ambu
Ideas that work for life

## MANAGEMENT'S REVIEW

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### Management's statement and independent auditor's report



### Financial statements 2017/18 – Parent company



The annual report is published in Danish and English. In case of discrepancies between the two versions, the Danish text shall prevail.

# Introduction


Ambu® aScope ™ 4 RhinoLaryngo Intervention is one of two single-use endoscopes for ENT procedures which will be launched in 2018/19.

# Focus on clean devices

## Increased investments and a healthy business.

In fact, it's quite simple: We believe that doctors and patients – wherever they are in the world – are entitled to absolutely clean hospital equipment. And within the field of endoscopes, laryngeal masks, resuscitators and electrodes, we believe that using single-use devices is the only way of making sure that the equipment is clean.

For us, this is nothing new. For many years, this has been our line of thinking in Ambu, and we sell more than 800 million products a year. What's new is that we are able to develop increasingly advanced single-use products. Ten years ago a single-use endoscope was a vision. Today, they are used in hospitals all over the world.

## From multiple-use to single-use

In FY 2017/18, Ambu sold 560,000 single-use endoscopes, and we are currently developing new types of single-use endoscopes for procedures in the urinary system, ENT and the gastrointestinal system. So far, our products have been relevant for up to five million endoscopy procedures a year. With the new types of endoscopes to be developed over the next two years, we will be relevant for about 100 million procedures a year.

We are well aware that the conversion from multiple-use to single-use devices is not going to happen overnight. But we believe that within a ten-year period, 80% of all endoscopies will be performed using single-use products. And we believe that concerns for patient safety and the need to reduce the risk of infection in hospitals will drive this development.

In addition, switching to single-use devices will be financially beneficial for most hospitals because the investment required is minimal, and because it does away with the costs associated with repairing and cleaning multiple-use devices.

## Integration and expansion

Looking back on the past year, an important milestone was our acquisition of the German company Invendo Medical GmbH, which is now an Ambu development centre with special focus on products for gastrointestinal procedures. An important part of the integration process has been the relocation of production of the SC210 colonoscope from Germany to our factory in Malaysia, where we have the production capacity and skills needed to establish and scale production. In the first half of the year, we will provide training for selected hospitals in the USA in preparation of a general launch in the USA in FY 2019/20.

In addition to the acquisition of Invendo, we opened a new factory in Malaysia at the beginning of the year. In Denmark, we have extended our head office in order to accommodate more employees. And worldwide, we now have 10% more Ambu colleagues than a year ago. Our North American sales force and our development departments have seen the greatest increase in resources, but we have also invested in our European sales organisation and in our head office functions.

## Increased investment level

Financially, we have increased investments relative to the investment levels seen in previous years, from 4-6% to 9% of revenue.

In the new year – 2018/19 – we will maintain an investment level of 8-9% of revenue; however, a declining need to invest in buildings and infrastructure will enable further investments in the development of new products. The increased investment level will create a foundation for our continued pursuit of our ambitious double-digit growth rates.

## Strategic goals and potentials

A year ago, we presented our 2020 strategy entitled Big Five. An ambitious strategy, which aims to make the most of the potential that we see in the global market for advanced single-use technology. A potential, which Ambu is strongly geared to realising.

One year into the Big Five strategy period, we have raised our financial targets for 2020, and we now expect both higher organic growth and higher earnings than we did 12 months ago.

Innovation is paramount, and today Visualisation contributes 32% of revenue. A business area that was non-existent a few years ago.

Our focus – and the focus that drives Ambu every single day – is on contributing to making devices available to doctors and patients that are absolutely clean.

Saving lives and improving patient care is key to who we are, and this is what we will humbly continue to do in 2018/19.

| | |
|---|---|
| Jens Bager<br>Chairman of the Board | Lars Marcher<br>President & CEO |

# Financial highlights

| DKKm | 2017/18 | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Revenue | 2,606 | 2,355 | 2,084 | 1,889 | 1,584 |
| Gross margin, % | 59.4 | 56.5 | 53.9 | 50.9 | 52.4 |
| EBITDA | 678 | 555 | 458 | 332 | 286 |
| Depreciation | -49 | -45 | -47 | -48 | -46 |
| Amortisation | -66 | -60 | -55 | -48 | -42 |
| EBIT | 563 | 450 | 356 | 236 | 198 |
| Net financials | -98 | -57 | -30 | -21 | 10 |
| Profit before tax | 465 | 393 | 326 | 215 | 208 |
| Net profit for the year | 337 | 301 | 250 | 152 | 151 |
| **Balance sheet** | | | | | |
| Assets | 4,234 | 2,500 | 2,364 | 2,252 | 2,045 |
| Net working capital | 535 | 457 | 519 | 549 | 450 |
| Equity | 1,882 | 1,279 | 990 | 1,034 | 852 |
| Net interest-bearing debt | 1,245 | 767 | 955 | 731 | 739 |
| **Cash flows** | | | | | |
| Cash flows from operating activities | 554 | 462 | 369 | 208 | 183 |
| Cash flows from investing activities before acquisitions | -233 | -141 | -84 | -101 | -80 |
| Free cash flows before acquisitions of enterprises and technology | 321 | 321 | 285 | 107 | 103 |
| Acquisitions of enterprises and technology | -928 | 0 | -155 | -17 | -112 |
| Cash flows from operating activities, % of revenue | 21 | 20 | 18 | 11 | 12 |
| Investments, % of revenue | -9 | -6 | -4 | -5 | -5 |
| Free cash flows before acquisitions of enterprises, % of revenue | 12 | 14 | 14 | 6 | 7 |
| **Key figures and ratios** | | | | | |
| Organic growth, % | 15 | 14 | 9 | 9 | 7 |
| Rate of cost, % | 38 | 37 | 37 | 38 | 40 |
| EBITDA margin, % | 26.0 | 23.6 | 22.0 | 17.6 | 18.1 |
| EBIT margin, % | 21.6 | 19.1 | 17.1 | 12.5 | 12.5 |
| Tax rate, % | 28 | 23 | 23 | 29 | 27 |
| Return on equity, % | 21 | 27 | 25 | 16 | 20 |
| NIBD/EBITDA | 1.8 | 1.4 | 2.1 | 2.2 | 2.6 |
| Equity ratio, % | 44 | 51 | 42 | 46 | 42 |
| Net working capital, % of revenue | 21 | 19 | 25 | 29 | 28 |
| Return on invested capital (ROIC), % | 17 | 17 | 15 | 10 | 9 |
| Average number of employees | 2,712 | 2,503 | 2,337 | 2,270 | 2,333 |
| **Share-related ratios** | | | | | |
| Market price per share, DKK[1] | 154 | 97 | 71 | 36 | 21 |
| Earnings per share (EPS) (DKK)[1] | 1.39 | 1.27 | 1.05 | 0.63 | 0.64 |
| Diluted earnings per share (EPS-D) (DKK)[1] | 1.36 | 1.24 | 1.03 | 0.61 | 0.62 |
| Cash flow per share[1] | 2.20 | 1.90 | 1.53 | 0.86 | 0.77 |
| Equity value per share[1] | 7 | 5 | 4 | 4 | 4 |
| Price/equity value | 20.6 | 18.6 | 17.0 | 8.6 | 5.9 |
| Dividend per share[1] | 0.40 | 0.37 | 0.31 | 0.19 | 0.19 |
| Pay-out ratio, % | 30 | 30 | 30 | 30 | 30 |
| P/E ratio | 111 | 77 | 68 | 57 | 33 |

For definitions, see note 5.11 to the consolidated financial statements.

[1]Restatement to a nominal value of DKK 0.50 per share as a result of share split carried out in January 2018.

# Ambu – at a glance

Supplies medical devices to hospitals and rescue services

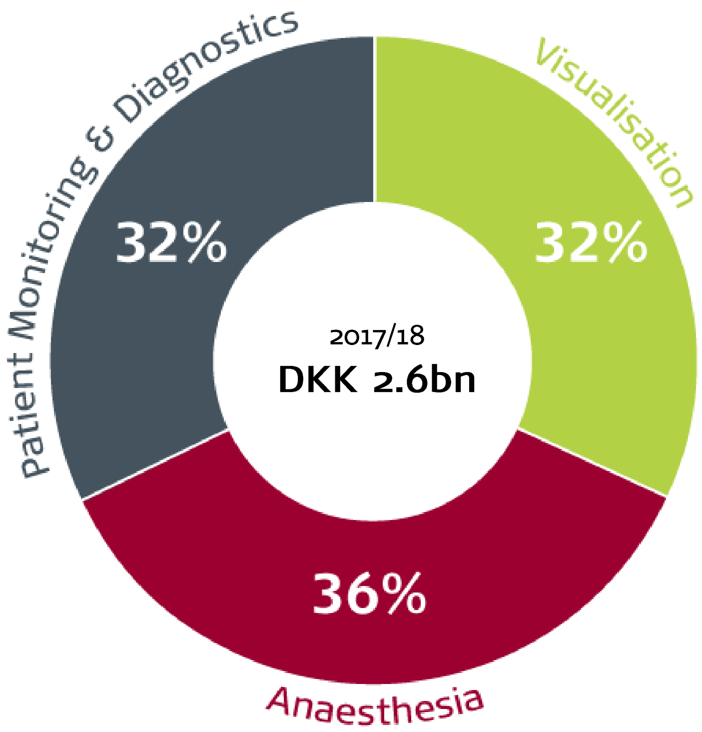
Global sales. Directly and via distributors

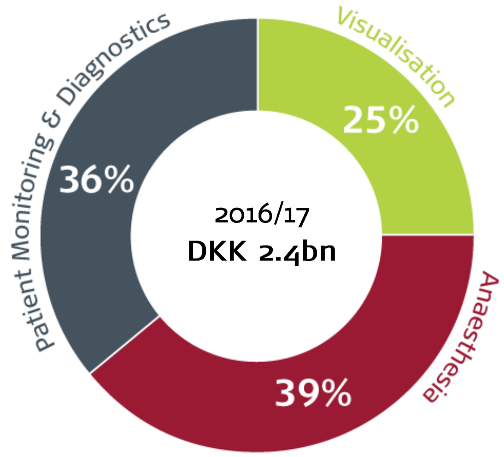
Production in China, Malaysia and the USA

2,700 employees all over the world

Founded in 1937

## Breakdown of revenue




| VISUALISATION | ANAESTHESIA | PMD |
|---|---|---|
| • Single-use endoscopes | • Resuscitators | • Cardiology electrodes |
| • Video laryngoscopes | • Laryngeal masks | • Neurology electrodes |
| • Airway tubes with integrated camera | • Face masks | • Training manikins |
| | • Breathing circuits | • Neck collars |

## Highlights 2017/18

**Revenue**
DKK **2,606**m
+15% organic

**Gross margin**
**59.4%**
+2.9 percentage points

**EBIT**
DKK **563**m
+25%

**EBIT margin**
**21.6%**
+2.5 percentage points

**Free cash flows**
DKK **321**m
+0%

**Proposed dividend**
DKK **0.40**/share
+8%

**No. of endoscopes sold**
**560,000** units
+54%

## Primary events in 2017/18

- Big Five 2020 strategy announced – October 2017
- Acquisition of Invendo Medical GmbH – October 2017
- Inauguration of new factory in Malaysia – January 2018
- Ambu® aScope™ 4 Broncho approved by FDA – March 2018
- Ambu announces pipeline of flexible single-use endoscopes – May 2018
- Ambu included in C25 index on Nasdaq Copenhagen – June 2018
- Big Five 2020 financial targets raised – October 2018
- Launch of four new products in 2018/19 announced – October 2018

# Strategic and financial targets


A new US study shows that one in four reusable EEG electrodes are contaminated with bacteria due to insufficient cleaning. For a typical EEG, patients are fitted with 20-27 EEG electrodes for recording electricity activity in the brain. The picture shows Ambu's single-use EEG electrodes.

# Industry

As a medtech company, Ambu is part of the global healthcare industry, which can be influenced by a number of global trends.

## Mega trends

**Demographic changes** are resulting in population growth and increasing life expectancies. This entails an increased need for the treatment of lifestyle diseases, for surgical procedures and for cosmetic treatments.

▶ Ambu operates in a market where the demand for high-quality equipment which helps doctors, nurses and paramedics in their efforts to diagnose and treat patients is not going to go away.

**Technological advances** will facilitate new and – clinically and/or economically – better solutions within established treatment areas.

▶ Ambu is at the forefront of technological developments in the areas where our products stand out, i.e. within the development of advanced single-use devices – for the benefit of hospitals as well as patients.

**Increased pressure on healthcare budgets** calls for efficiency improvements and a stronger focus on optimising treatment programmes – for the benefit of the overall economy and patient treatment.

▶ Concurrently with our development of innovative solutions, it is important that Ambu highlights the health economic benefits of our solutions for hospitals. This means documenting the beneficial effects of our products on patient care and the hospitals' economy – over and above the clinical benefits.

## Market opportunities

**Visualisation**

New technological possibilities for developing single-use endoscopes, easier access to equipment, and a growing and ageing population are fuelling endoscopy market growth.

Growing awareness of the risks of infection among government agencies and institutions, hospital managements, healthcare professionals and patients is driving the endoscopy market in the direction of single-use devices.

Pressure on hospital budgets is leading to increased focus on health economics.

**Ambu's vision**

We will simplify endoscopy.

We will deliver flexible single-use endoscopes for all relevant clinical areas: Airways, ENT, the urinary system and the gastrointestinal system.

We will improve patient safety.

We will improve health economics.

**Anaesthesia and Patient Monitoring & Diagnostics**

Ambu's products – such as masks, electrodes, resuscitators and breathing circuits – are an integral part of life-saving and other treatments provided daily by hospitals and rescue services.

**Ambu's vision**

Focusing on customers and patient safety, we will develop our position through the strengthening of our product range.

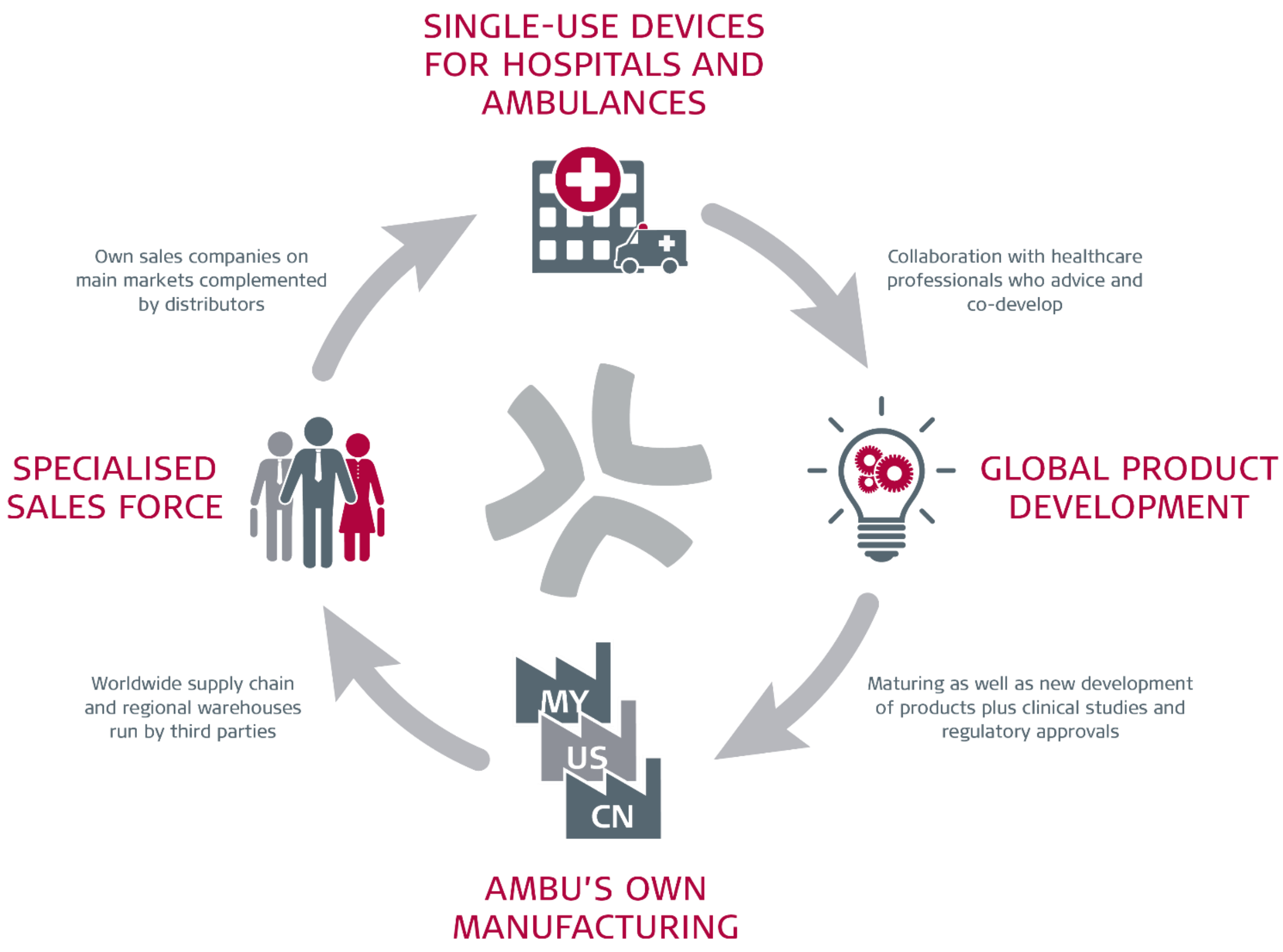
# Business model

Ambu develops, manufactures and sells devices to hospitals and rescue services all over the world. We develop our products in close collaboration with doctors and nurses, in order to most effectively ensure that our solutions are relevant for our customers.

**Global product development**
Ambu's product development is global. Our main innovation centres are located in Denmark and Malaysia, where we focus our efforts on developing new products. In addition, we have local development departments at our factories in China and the USA as well as in Germany.

**Our own factories**
We own and operate our own factories, which produce approx. 90% of the products we sell. The remaining approx. 10% are produced mainly by a small number of subsuppliers with whom Ambu has been working for many years.

**Specialised sales force**
Most of our revenue is generated through our own direct sales. Ambu has sales reps in 19 countries, and over the past few years, we have increased our sales force, which has also become further specialised within our various business areas. Also, we have taken on a number of so-called clinical consultants to help customers optimise their use of our visualisation products.



# Strategy

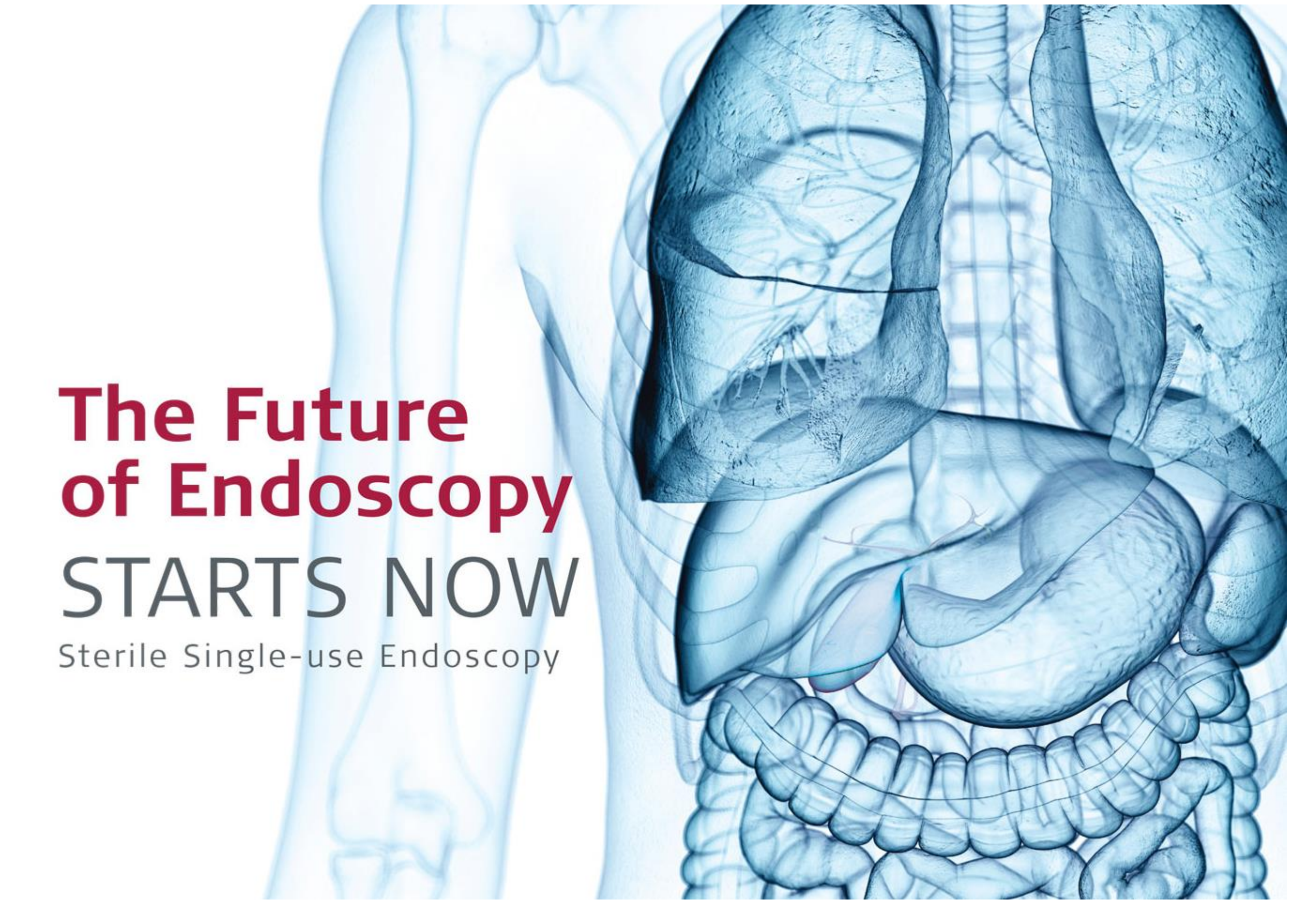
Our three-year Big Five strategy was launched at the start of FY 2017/18, and we are now one year into the strategy period.

After the first year, which has been characterised by commercial progress, we have raised our financial targets and now expect to realise an average annual growth rate of 16-18% over the three-year period. With realised growth of 15% in the financial year just ended, and with a growth target for FY 2018/19 of 15-16%, the Big Five strategy has got off to a good start.

**Investments**
We have made significant investments in recent years, both in the form of acquisitions of enterprises and technologies – most recently within the gastrointestinal area with the acquisition of the German company Invendo Medical and within airways management with the acquisition of Israeli ETView – and also through the investment of considerable resources in the development of endoscopes and the establishment of additional production capacity.

In FY 2017/18, we invested 9% of revenue in the development of new products and production capacity etc., and we see an unchanged investment need in the coming years; however, more will be invested in product development, and less in production capacity as such, as the new factory in Malaysia is expected to have sufficient capacity until and including 2020. The primary development activities will centre on endoscopy.

In addition to the above investments, considerable sales resources have been added in the most recent financial year, among other things through the specialisation of the sales organisation in the USA. The establishment of separate sales organisations for endoscopes and our core business has had a positive effect on growth in the current financial year and is expected to further grow sales of endoscopes and our core areas – Anaesthesia and Patient Monitoring & Diagnostics – in the new year.



## Financial targets for 2020

In the three-year period up until 2020, we expect to launch a number of new and groundbreaking single-use endoscopes and thereby create significant growth and earnings potential. Our financial targets for the period up until 2020 are as follows:

### Revenue

In the three-year Big Five strategy period, we expect to realise average annual organic growth rates of 16-18%, raised from 13-15%.

**16-18%**
**organic growth**

### Earnings

In the first year of the strategy period, we have scaled our Visualisation business further. We are therefore raising our expectations for our EBIT margin in 2020 from approx. 24-25% to 26-28%.

**26-28%**
**EBIT margin**

### Free cash flows

We expect free cash flows to equate to approx. 18% of revenue in 2020.

**~ 18%**
**of revenue**

The increase in organic growth to 16-18% is expected to be driven by Ambu's existing product portfolio, by four new products to be launched in FY 2018/19, and by the pipeline of endoscopes to be launched by 2020.

The expected increase in the EBIT margin will be driven primarily by an improved product mix as high-margin products in our endoscopy business will account for a larger share of sales towards 2020.

### Four new products to be launched in 2018/19

**Ambu® aScope BronchoSampler™**
Single-use accessory for Ambu's bronchoscope. Improves bronchoalveolar lavage (BAL) procedures, which is the sampling of secretions from the lungs.

**Ambu® aScope™ 4 RhinoLaryngo Intervention**
Single-use rhinolaryngoscope. Used for ENT procedures, in particular to carry out biopsies, remove foreign objects or suck up secretions.

**Ambu® aScope™ 4 RhinoLaryngo Slim**
Single-use rhinolaryngoscope. Used for routine ENT procedures.

**Invendoscope™ SC210**
Single-use colonoscope for rectal and colonic endoscopies.

### 2020 vision of reaching DKK 5bn in revenue through acquisition

We focus on organic growth, in addition to which acquisitions may be made if the right opportunity arises. We will not commit in advance to making more acquisitions before 2020 as any acquisitions must be aligned with our strategy.

Our Business Development team works tirelessly with acquisitions and business development, and we have the funds needed to finance a major acquisition, should the right opportunity arise.

### Pipeline of flexible single-use endoscopes

By 2020, we will be relevant to around 100 million endoscopy procedures in four areas.

**Airways (bronchoscopy)**
Following the launch of aScope 4 Broncho, we cover the entire market, which amounts to five million procedures.

**ENT (rhinolaryngoscopy)**
The market for ENT products amounts to 11 million procedures. Towards 2020, we will launch two endoscopes for ENT procedures.

**Gastrointestinal system (gastroenterology)**
The market for gastroenterology amounts to 72 million procedures. In the period up until 2020, we will launch a colonoscope, a gastroscope and a duodenoscope.

**Urinary system (urology)**
The market for urology constitutes seven million procedures. Towards 2020, we will launch a cystoscope.

# Financial outlook for 2018/19

**Change in accounting policy**
Following the implementation of the international accounting standard IFRS 15 'Revenue from Contracts with Customers', Ambu's long-standing accounting practice of offsetting fees paid to group purchasing organisations (GPOs) against revenue will be changed. From 2018/19, revenue will be presented without any deduction of these fees, while selling and distribution costs will be increased accordingly. For FY 2018/19, the amount concerned is approx. DKK 35m. The change in accounting policy is neutral for the operating profit (EBIT), but will reduce the EBIT margin by an estimated 0.3% in 2018/19. These effects have been factored into the financial outlook for 2018/19, as listed below. The determination of organic growth is not affected by the change in accounting policies, and the comparative figures will not be restated.

**Growth and market conditions**
In 2018/19, Ambu expects to realise organic growth of approx. 15-16%. The growth will be driven by the Visualisation business area, which will continue to see high double-digit growth rates. Within the business areas Anaesthesia and PMD, stable growth rates of approx. 4-5% are expected.

The general market growth in both Europe and North America is expected to remain unchanged at approx. 2-3%. The economic situation is generally improving, but the framework for international trade is being disrupted, among other things following the UK's withdrawal from the European Union if an agreement is not reached in time, and also following the escalating trade conflict between the USA and China during the summer of 2018. Ambu has extensive production in Xiamen, China, and is therefore exposed to any additional customs duties on products manufactured in China for import into the USA.

Specifically with regard to the Visualisation business area, a number of major companies have announced that they are going to launch products which will be competing with, for example, Ambu's aScope. Basically, we see competition as a positive thing, and as confirmation that we were right in predicting a comprehensive conversion from multiple-use to single-use endoscopes. We therefore do not see competition as a threat, but as a development which will increase focus on those properties of our aScope which have made this product such a success in recent years. And we expect this focus to significantly increase the pace at which this conversion will continue, thereby positively impacting Ambu's development both in the short and long term.

We expect the concrete effects of such competition to be minimal or non-existent in 2018/19. In 2018/19, the pressure on prices is expected to be similar to previous years, i.e. very modest approx. 0.5%. Price pressures will primarily be seen within PMD and Anaesthesia, but we expect to be able to still increase our aggregate gross margin based on the growth in Visualisation and the scaling and streamlining of our supply chain as a whole.

**Currency expectations**
The financial outlook for 2018/19 is based on the following exchange rate assumptions:

| | Realised in 2017/18 | Expected for 2018/19 |
|---|---|---|
| USD/DKK | 626 | 650 |
| CNY/DKK | 96 | 95 |
| MYR/DKK | 155 | 155 |
| GBP/DKK | 842 | 830 |

Just over 50% of Ambu's total revenue is invoiced in USD. In addition, just under 45% of revenue is invoiced in EUR or DKK, and the remaining approx. 5% in GBP. Production costs are settled in USD, DKK, EUR, MYR and CNY.

The effect of a strengthening of 10% relative to the Danish krone is estimated to be as follows for the main currencies:

| DKKm | USD | MYR | CNY | GBP |
|---|---|---|---|---|
| **Revenue** | 160 | 0 | 0 | 15 |
| **EBIT** | 45 | -15 | -15 | 10 |
| **EBIT margin** | +0.3% | -0.5% | -0.5% | +0.3% |

**Financial outlook**
The financial outlook, based on the expected exchange rates for 2018/19, is unchanged relative to the announcement made in company announcement no. 1 issued on 4 October 2018 in connection with the capital markets day:

- Organic growth in local currencies of approx. 15-16%
- EBIT margin of approx. 22-24%
- Free cash flows of approx. DKK 400-475m.

The EBIT margin corresponds to an improvement of approx. 2 percentage points.

The outlook for the free cash flows corresponds to approx. 14-15% of revenue and is calculated before acquisitions of enterprises and technology, but includes investments in product development and production equipment amounting to approx. 8% of revenue or up to DKK 250m.

**Acquisitions and partnerships**
As an integrated part of our strategy, Ambu is working to identify enterprises, products and partnerships that can supplement our existing product portfolio and strengthen our global market position. The outlook for the year may naturally be affected by new acquisitions and/or major new partnerships.

| Financial outlook for 2018/19 | Local currencies | Danish kroner |
|---|---|---|
| Organic growth | Approx. 15-16% | - |
| EBIT margin | - | Approx. 22-24% |
| Free cash flows before acquisitions | - | Approx. DKK 400-475m |

**Forward-looking statements**
Forward-looking statements, especially such as relate to future sales, operating income and other financial key figures, are subject to risks and uncertainties. Various factors, many of which are outside Ambu's control, may cause the realised results to differ materially from the expectations contained in this report. Such factors include, but are not confined to, changes in market conditions and the competitive situation, changes in demand and purchasing patterns, fluctuations in foreign exchange and interest rates, and general economic, political and commercial conditions.

See also the section on risks on page 26.

# Financial results

Ambu's BlueSensor™ electrodes are known for providing a clear signal and for being gentle on the skin. This is, among other things, due to the skin-friendly gel used.

# Revenue and growth – business areas

Growth for the year is regarded as being organic and, unless otherwise stated, references to growth should be taken to mean annual growth in local currencies. Comparative figures for 2016/17 are stated in brackets.

## Anaesthesia

Within Anaesthesia, sales increased by 6% in Q4, both in local currencies and in Danish kroner. Full-year growth of 6% in local currencies, and 0% in Danish kroner, was realised. All in all, Anaesthesia accounted for 36% (39%) of Ambu's revenue in 2017/18.

Since the capital markets day on 4 October 2017, Ambu has communicated a long-term growth ambition for Anaesthesia of approx. 5%, and with realised growth of 6% in 2017/18, we are satisfied with the results achieved. Results are particularly satisfactory in the USA, where 7% growth in Anaesthesia is an early sign that the specialisation of our US sales force is working.

In Europe and the rest of the world, Anaesthesia posted growth of 5% and 4%, respectively.

## Visualisation

In Q4, Visualisation grew sales by 39% in local currencies, and by 40% in Danish kroner. Full-year growth of 46% in local currencies, and 40% in Danish kroner, was realised. In FY 2017/18, Visualisation accounted for 32% (25%) of Ambu's revenue. Growth comes primarily from the USA and Europe, for which growth rates of 46% and 49%, respectively, were realised. The rest of the world realised a growth rate of 28%.

In Q4, a total of 165,000 (115,000) endoscopes were sold, up 43% compared to Q4 2016/17.

In support of our financial outlook, we have regularly provided information about the number of endoscopes sold. At the beginning of the year, we expected sales of more than 500,000 endoscopes in 2017/18, and in connection with the presentation of our interim report for Q3, we raised this figure to approx. 550,000 units. At year-end, sales of 560,000 endoscopes had been realised, corresponding to a growth rate of 54% (82%).

During the financial year, we saw stable prices for our aScope, and the margin realised is on a par with previous years.

The most important impact on the average sales prices for aScope can be attributed to the sales channel. In other words, whether Ambu sells directly or through a distributor, which is paid a standard distributor margin of approx. 25-30%.

On 25 October 2017, Ambu acquired Invendo Medical GmbH and thereby secured access to a technology platform for single-use endoscopes for gastrointestinal procedures which it would have taken years to develop in-house. Since October 2017, focus has been on strengthening Invendo's organisation in order to accelerate the rate of development of new endoscopes, and also on establishing a production of the colonoscope at Ambu's factory in Malaysia. In parallel, a dedicated marketing organisation has been established in the USA, reporting to Ambu's existing sales management in the USA.

aScope 4 Broncho received FDA approval on 28 March 2018, and sales in the USA were initiated immediately. At the end of FY 2017/18, aScope 4 Broncho had been launched in the USA, Europe, Australia and selected markets in Asia, and the production of aScope 3 will be phased out at the end of Q1 2018/19, except for a small production to cover markets in Asia and Latin America where the regulatory approval of aScope 4 Broncho is still pending.

Compared to aScope 3, aScope 4 Broncho comes with a number of innovative technological features which mean that aScope can now be used for pulmonary endoscopy procedures, increasing its potential use from three million procedures globally to up to five million procedures annually. The improvements include improved depth of field, adaptive lighting control and improved mechanical control sensitivity.

VivaSight is a product which Ambu took over in 2016 in connection with the acquisition of the Israeli company ETView. The product consists of single-use double and single-lumen tubes with an integrated high-resolution camera, and is used during surgical procedures in or around the lungs. In 2017/18, the VivaSight products were integrated with the aScope monitor, and VivaSight is therefore now regarded as an integral part of Ambu's aScope family solutions. While increasing patient safety, VivaSight allows continuous visual monitoring of the positioning of the tube throughout the surgical procedure. Through continuous monitoring via direct video recording, the doctor can see immediately if the tube has moved and move it back into place. This is a major step forward for patient safety. Sales of VivaSight developed positively in FY 2017/18, and we expect this development to continue.

**Revenue – business areas**

| | Q4 | | | Composition of growth | | | YTD | | | Composition of growth | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 17/18 | Distribution | 16/17 | Organic* | Currencies | Reported | 17/18 | Distribution | 16/17 | Organic* | Currencies | Reported |
| Anaesthesia | 247 | 34% | 232 | 6% | 0% | 6% | 926 | 36% | 923 | 6% | -6% | 0% |
| Visualisation | 249 | 34% | 178 | 39% | 1% | 40% | 836 | 32% | 597 | 46% | -6% | 40% |
| PMD | 233 | 32% | 219 | 5% | 1% | 6% | 844 | 32% | 835 | 4% | -3% | 1% |
| **Revenue** | **729** | **100%** | **629** | **15%** | **1%** | **16%** | **2,606** | **100%** | **2,355** | **15%** | **-4%** | **11%** |

**Local currencies*

Following the expansion of the factory in Malaysia, maximum production capacity has been increased to approx. four million aScopes a year. In January 2018, the first one of the four floors was occupied, and the second floor was taken into use in July 2018. The remaining two floors can be taken into use as and when the need arises, without any significant additional investments.

## Patient Monitoring & Diagnostics (PMD)

In Q4, PMD sales were up 5% in local currencies, and 6% in Danish kroner. For the full financial year, growth of 4% was posted in local currencies, and 1% in Danish kroner. The regional distribution of growth was 6% in North America, 1% in Europe and 11% in the rest of the world. Growth in North America is highly satisfactory and can, among other things, be attributed to the generally increased focus on sales execution in the USA achieved through the strengthening of the sales force.

The low growth in Europe is ascribable to intensifying competition in some markets. Aggregate growth for PMD in 2017/18 was at the high end of the long-term growth target of 3-4%, and PMD accounted for 32% (36%) of Ambu's revenue.

The PMD business area consists of three product groups: Cardiology, neurophysiology and first aid. Cardiology accounts for approx. 50% of PMD sales, while the other two product groups each account for around 25%.

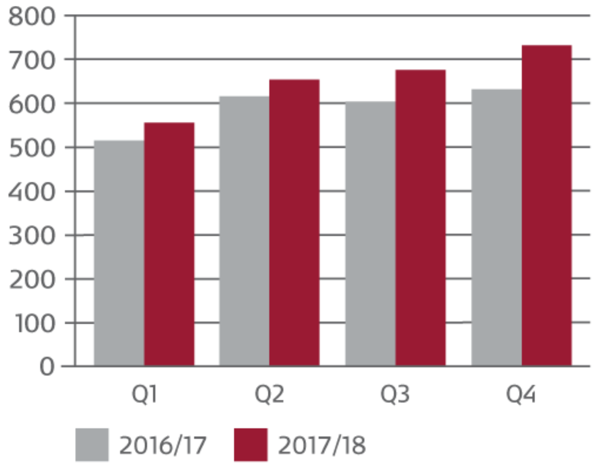
Within PMD, neurophysiology accounted for the strongest growth both in Q4 and for the full year. In 2017/18, the cardiology market was once again the most competitive product group for Ambu, but positive aggregate growth was nevertheless realised, both in Q4 and for the full year.

# Revenue and growth – markets

For both Q4 and the full year, all three regions realised double-digit growth in revenue, and growth above the underlying market growth. As usual, higher revenue was posted in Q4 than in any other quarter, with revenue of DKK 729m (DKK 629m) being realised, corresponding to growth of 15% (14%) in local currencies, and 16% (10%) in Danish kroner.

Measured in local currencies, Q4 revenue accounted for 28% (27%) of revenue for the year.

**Quarterly revenue (DKKm)**




All three sales regions posted high double-digit growth for the full year within Visualisation, with a high degree of uniformity in terms of market penetration and customer behaviour across the markets.

In Europe, Anaesthesia grew by 5%, which is satisfactory and higher than the underlying market growth. Visualisation posted growth of 49%, while PMD's 1% growth rate for the year is lower than expected due to fierce competition in several markets.

In North America, good results were posted, both generally speaking and for the individual product areas. Anaesthesia realised growth of 7%, Visualisation 46% and PMD 6%. For the core portfolio, clear improvements were seen compared to previous years, which were attributable partly to the increased focus generated by the specialisation of the sales force as well as partnerships in neurology.

In the rest of the world, Anaesthesia realised growth of 4% in 2017/18, while the growth rate for PMD was 11%, and for Visualisation 28%. In the rest of the world, up to 60% of revenue for Visualisation is generated in the Australian market, which was the launch market for aScope 3 back in 2013, and which now has one of the highest penetration rates for aScope globally.

**Revenue – markets**

| | Q4 | | | Composition of growth | | | YTD | | | Composition of growth | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 17/18 | Distribution | 16/17 | Organic* | Currencies | Reported | 17/18 | Distribution | 16/17 | Organic* | Currencies | Reported |
| Europe | 271 | 37% | 244 | 11% | 0% | 11% | 1,095 | 42% | 962 | 14% | 0% | 14% |
| North America | 363 | 50% | 303 | 18% | 2% | 20% | 1,208 | 46% | 1,106 | 17% | -8% | 9% |
| Rest of the world | 95 | 13% | 82 | 16% | 0% | 16% | 303 | 12% | 287 | 11% | -5% | 6% |
| **Revenue** | **729** | **100%** | **629** | **15%** | **1%** | **16%** | **2,606** | **100%** | **2,355** | **15%** | **-4%** | **11%** |

**Local currencies*

# Income statement

**Revenue and gross profit**
Revenue for the year was DKK 2,606m based on growth of 15% (14%) in local currencies, and 11% (13%) in Danish kroner.

Gross profit was up 16% at DKK 1,547m (DKK 1,331m), while the gross margin increased by 2.9 percentage points to 59.4% (56.5%).

The gross profit development was generally in line with expectations, with the increase being attributable partly to a profitable product mix following the strong growth in sales of endoscopes, partly to the continued efficiency increases achieved in production and in factory operations.

With regard to the product mix, the development in sales of endoscopes is key. Thus, endoscopes contribute margins which are an average 10 percentage points higher than the average for the rest of Ambu's product portfolio. Also, in Danish kroner the endoscopes contribute growth of approx. 40%, whereas all the other products contribute a combined growth of approx. 0%, also in Danish kroner.

The increase in efficiency at the factories is evident both from the decline in factory overheads relative to revenue, and from a reduction in the direct variable production costs on account of continuous automation and lower prices of raw materials due to increasing purchase volumes. Moreover, the increased costs of operating the new factory from January 2018 are also limited and are offset by lower costs following the acquisition of some of the facilities in Malaysia from 1 March 2018 which were previously rented.

The combined effect of price pressures in 2017/18 was in line with expectations and approx. 0.5%. This is unchanged compared to previous years and reflected in the improved gross margin, as explained above. The pressure on prices is seen in the business areas Anaesthesia and PMD. There seems to be no price pressure trends for Visualisation.

**Currency exposure**
Just over 50% of Ambu's total revenue is invoiced in USD. In addition, just under 45% of revenue is invoiced in EUR or DKK, and the remaining approx. 5% in GBP.

Production costs are settled in USD, DKK, EUR, MYR and CNY.

In 2017/18, the average USD/DKK exchange rate was 626 (675), down 7%. The average CNY/DKK exchange rate declined by 3%, GBP/DKK declined by 1%, while the MYR/DKK exchange rate is unchanged. The combined exchange rate impact on this year's revenue is negative to the order of DKK 100m, while the impact on earnings and EBIT margin is limited due to the cost base in the USA and due to the fact that the factories in China and Malaysia settle approx. 45% of their direct production costs in USD.

**Costs**
In 2017/18, capacity costs totalled DKK 984m (DKK 881m), corresponding to a 12% increase, inclusive of the operating costs related to Invendo, which do not feature in 2016/17. Adjusted for this – and adjusted for other operating expenses of DKK 10m for FY 2016/17 in the form of the costs of integrating an acquired enterprise – the underlying increase in capacity costs is 10%, including the costs incidental to the specialisation of the US sales force.

The rate of cost was 38% (37%), inclusive of the above corrections 37% (37%).

Selling and distribution costs were up 13% at DKK 607m, including costs of DKK 40m incidental to the specialised sales organisation in the USA, which equates to 7 percentage points of the total selling and distribution costs. At the end of 2017/18, the sales organisation had 464 (379) employees, which represents an increase of 85 employees, more than half of whom have been taken on in the USA.

Development costs increased by 46% to DKK 111m, including activities in Invendo in the amount of DKK 27m, after which the underlying increase in expensed development activities constitutes 11% (15%), which is in line with the organic cost development in recent years. At the end of the financial year, the global development organisation comprises 113 (76) employees.

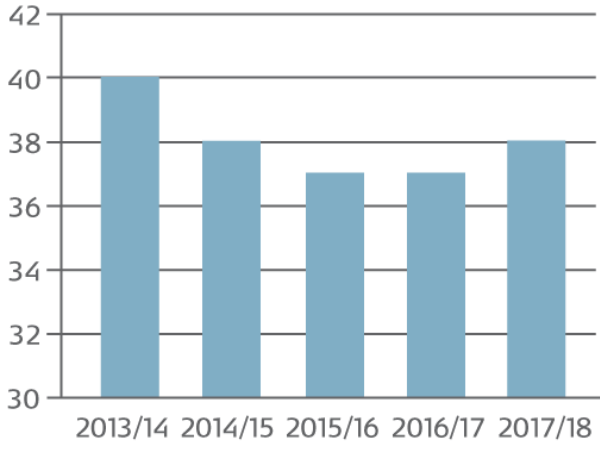
Adjusted for non-cash items and investments in development projects, the value of our total development activities in the financial year was DKK 150m (DKK 98m), see note 2.4 to the consolidated financial statements. Activities related to our gastrointestinal products account for a significant share of the DKK 52m increase.

| DKKm | YTD | |
|---|---|---|
| | **17/18** | **16/17** |
| Development costs | 111 | 76 |
| ÷ Amortisation related thereto | -66 | -53 |
| + Investments | 105 | 98 |
| **= Cash flows** | **150** | **98** |
| **Liquidity ratio** | **0.7** | **0.8** |

Development costs are capitalised in so far as the direct resources associated with approved projects are concerned. Management and administrative expenses as well as overheads during the development activity are expensed directly. The declining ratio for directly expensed development costs is due to higher levels of activity.

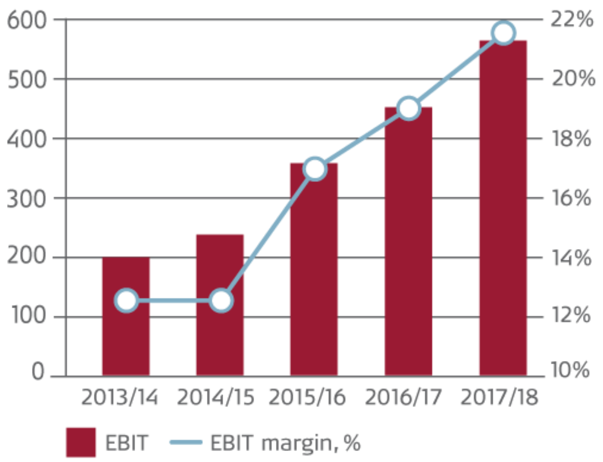
Management and administrative expenses increased by 4% to DKK 266m.The low increase is attributable to the cost of acquisition of Invendo Medical GmbH being included in the financial statements for 2016/17 in the amount of approx. of DKK 5m. Considerable quarterly fluctuations are seen in the development in costs, for example from Q3 to Q4. These fluctuations reflect normal and recurring shifts in activity levels.

**Rate of cost – five-year summary**




**Operating profit (EBIT)**
EBIT was DKK 563m (DKK 450 million), corresponding to an EBIT margin of 21.6% (19.1%) and thus equating to a 25% increase in nominal EBIT, including operating costs for Invendo, which does not yet contribute revenue.

**EBIT (DKKm) and EBIT margin**




**Net financials**
Net financial expenses of DKK 98m were posted, against net financial expenses of DKK 57m the year before.

The changes are composed as follows:

- Interest expenses on bank, lease and bond debt totalled DKK 31m (DKK 33m).
- Exchange rate adjustments of net working capital for subsidiary, market value adjustments of interest rate and currency swaps and reclassification of inefficient interest rate swap from other comprehensive income amounting to a combined income of DKK 7m (DKK -24m).
- The interest element from liabilities stated at present amortised value is recognised as a net expense of DKK 3m (DKK 3m).
- Fair value adjustments of contingent consideration represent an expense of DKK 71m, relating to the acquisition of Invendo (income of DKK 3m).

The refinancing of the bond loan which took place in March 2018 resulted in a significant reduction of the effective interest paid, less the costs of refinancing.

Adjustment to fair value of contingent consideration in the amount of DKK 71m is impacted by a net amount of DKK 10m in connection with the changes made in Q4 to the purchase price allocation, and corrected with retrospective effect in the first three quarters of the year, see the quarterly overview on page 23.

**Tax on profit for the year**
Tax on profit for the year totalled DKK -128m (DKK -92m), corresponding to a tax rate of 28% (23%).

Tax on profit for the year was impacted by the federal part of the income tax in the USA being reduced from 35% to 21% with effect from 1 January 2018. At the end of FY 2016/17, Ambu had recognised deferred tax-deductible differences and tax losses at a value of DKK 47m.The reduction of the federal corporate tax rate in the USA reduced the value of this asset by DKK 19m, which amount was expensed in Q1 2017/18. Tax on profit for the year is also affected by tax income in connection with the recognition of tax assets not previously recognised in the USA as well as impairment of a tax asset in Germany due to the intercompany transfer of technology rights.

Adjusted for these effects, the tax rate on profit for the year is 23% (23%).

Going forward, Ambu's effective tax rate is expected to remain at 23% of profit before tax adjusted for non-deductible and non-taxable items.

**Net profit**
This results in a net profit of DKK 337m (DKK 301m) and thus an increase of 12%.

**Earnings per share (EPS)**
Earnings per share for the financial year were DKK 1.39 (DKK 1.27). Earnings per share are negatively impacted by non-cash items pertaining to fair value adjustments of contingent consideration in connection with the acquisition of Invendo in the amount of DKK 56m calculated after tax, as well as a non-recurring cost item of DKK 19m due to the reduction of the federal income tax rate in the USA to 21%.

## Balance sheet

At the end of September 2018, Ambu had total assets of DKK 4,234m (DKK 2,500m), representing a substantial increase following the acquisition of Invendo Medical GmbH on 25 October 2017. The recognition of Invendo is described in note 3.9 to the consolidated financial statements.

The acquisition of Invendo Medical GmbH was closed on 25 October 2017, and in the interim financial statements for the first three quarters, Invendo was recognised on the basis of a preliminary allocation of the purchase price. In Q2, the allocation was corrected in respect of the recognition of deferred tax assets, and in Q4 a correction was made of the expected dates of payment of the contingent consideration.

As a whole, the corrections are due to greater insights into the underlying cash flows for the individual assets and liabilities gained by the management since 31 January 2018, and at the end of FY 2017/18, the purchase price allocation is now final.

The total purchase price for Invendo Medical GmbH was up to DKK 1,679m (EUR 225m), of which DKK 851m (EUR 115m) was paid in cash at closing, while an additional DKK 75m (EUR 10m) was paid following the expected FDA approval of the colonoscope on 9 January 2018. The remaining up to DKK 753m (EUR 100m) is made up of contingent consideration which falls due in instalments in the period up until 2023, when and if FDA approval is obtained of the colonoscope, gastroscope and duodenoscope, and provided that total sales of these products towards FY 2021/22 total EUR 200m.

The final fair value of the purchase price before acquired cash and cash equivalents is DKK 1,361m. Less the value of the net assets acquired – which are finally valued at DKK 650m, including a deferred net tax liability of DKK 20m relating to tax on revalued assets and recognition of tax assets – the calculated value of the acquired goodwill is DKK 711m against DKK 765m at the time of presentation of the interim financial statements for Q3. The reduction of goodwill by DKK 54m is primarily attributable to the reassessment of the contingent consideration based on new information about circumstances applying on the acquisition date.

The deferred payments are recognised at a fair value of DKK 501m (EUR 68m) as at the acquisition date. The difference between this value and the maximum liability of DKK 819m (EUR 110m) comes to DKK 318m (EUR 42m), which will be recognised in the income statement under net financials up until Q2 2022/23, or earlier to the extent that the conditions for the contingent consideration are fulfilled. The management expects the preconditions for the contingent consideration to be fulfilled within the agreed time frames, and the purchase price allocation is based on this assumption.

Reference is made to note 3.9 for a more detailed description of the purchase price allocation and the assumptions applied.

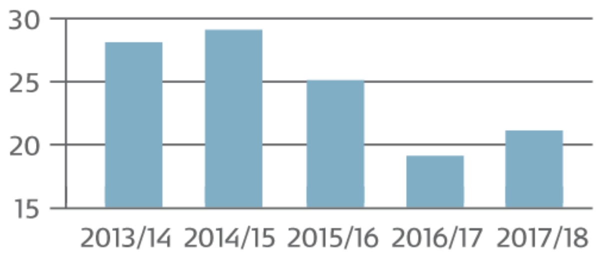
At the end of FY 2017/18, the ownership of all intellectual property rights previously owned by Invendo Medical GmbH was transferred to Ambu A/S. The purpose of the transaction is to be able to integrate the acquired assets into Ambu's value chain. This ensures that use of Ambu's factory in Malaysia as well as Ambu's global sales organisation can be settled financially within the existing contractual framework. From a liquidity point of view, the transfer of the intellectual property rights is expected to be tax-neutral as it has to a large extent been possible to use unutilised tax losses in Germany.

At the end of 2017/18, the net working capital had been increased to DKK 535m (DKK 457m), corresponding to 21% (19%) of revenue for the year. The increase in net working capital is mainly due to a decision to increase inventories of raw materials to the order of DKK 30m to ensure stability in production, especially within Visualisation.

At year-end, trade receivables amounted to DKK 478m (DKK 437m). Calculated at fixed exchange rates, this corresponds to a reduction of the average number of credit days for the year by six days to 63 days at the exchange rates applying at the balance sheet date at the end of the financial year.

The credit risk attaching to outstanding trade receivables is deemed to be unchanged, and the year was not affected by bad debts to any significant extent.

**Working capital (%) relative to revenue**




At year-end, inventories totalled DKK 382m (DKK 313m), corresponding to 15% (13%) of revenue for the year.

At the end of September 2018, cash totalled DKK 63m (DKK 19m).

At the end of September 2018, net interest-bearing debt (NIBD) was DKK 1,245m (DKK 767m), which corresponds to 1.8 (1.4) x EBITDA for the year.

At the end of September 2018, Ambu had unutilised credit facilities of approx. DKK 1.2bn.

## Cash flow statement

**Free cash flows**
Cash flows from operating activities amounted to DKK 554m (DKK 462m).

Cash flows from operating activities correspond to 21.3% (19.6%) of revenue. The improved cash flows are due to a faster receivables turnover ratio, with debtors now paying after an average of 63 days, as well as lower tax payments in Denmark. Cash flows are negatively affected by an increase in inventories.

The reduced tax payment in Denmark is ascribable to substantial tax deductions in connection with the transfer of intellectual property rights from foreign subsidiaries to Ambu A/S as well as deductions due to the exercise by employees of options and warrants. As these foreign subsidiaries have accumulated considerable tax losses, the transfer of technologies can be carried out without significantly affecting Ambu's total liquidity. For FY 2017/18, the combined deductions in connection with the exercise of share options and the transfer of intellectual property rights meant that no Danish income taxes were paid. At the end of 2017/18, capitalised tax losses in the amount of DKK 206m remain, see note 2.8, of which DKK 145m pertains to the parent company and which can be offset in the Danish tax payments in future financial years.

Investments in non-current assets totalled DKK 234m (DKK 159m), which is in line with expectations. Investments in buildings in the amount of DKK 70m are recognised, of which investments of DKK 36m were made in Q3 and comprise facilities in Malaysia as well as the extension of the head office in Denmark.

Total investments equate to 9.0% (6.8%) of revenue, of which DKK 72m or 2.8 percentage points (2.0 percentage points) are attributable to investments in buildings.

The free cash flows before acquisitions of enterprises and technology then totalled DKK 321m (DKK 321m).

Acquisitions of enterprises and technology totalled DKK 928m and primarily comprise Invendo Medical GmbH, including DKK 75m in milestone payments made in April 2018.

**Financing activities**
Cash flows from financing activities amounted to DKK 651m (DKK -323m). They relate primarily to the 2.91% increase in the Class B share capital effected in November 2017, the refinancing of long-term debt in connection with the redemption of loans, the purchase of treasury shares to cover option programmes and the payment of dividend of DKK 90m (DKK 73m).

Changes in cash and cash equivalents then come to DKK 44m (DKK -2m).

## Equity

At the end of September 2017, equity totalled DKK 1,882m (DKK 1,279m), corresponding to an equity ratio of 44% (51%) of total assets.

**Other comprehensive income**
Other comprehensive income primarily includes a translation adjustment arising from the translation of foreign subsidiaries of DKK 19m (DKK -54m) due to a 2% strengthening of the USD/DKK exchange rate during the financial year.

**Other equity**
In December 2017, dividend of DKK 92m was paid out to the company's shareholders, except for DKK 2m pertaining to Ambu's portfolio of treasury shares.

At the end of the financial year, Ambu employees had exercised a total of 2,092,431 options in Ambu A/S, and the general employee share programme for 2017/18 announced in the annual report for 2016/17 had been established. Year to date, this means that the holding of treasury shares has been reduced by 2,146,021 Class B shares in Ambu A/S.

On 1 February 2018, a share buy-back programme was initiated in accordance with the 'safe harbour' rules (EU market abuse regulation no. 596/2014) for the purpose of acquiring 3,850,000 Class B shares in Ambu A/S. The share buy-back programme was completed on 26 April 2018 with a total acquisition of 3,850,000 Class B shares at an average price of 128. At the end of the financial year, the holding of treasury Class B shares hereafter totals 7,738,419 (6,034,444), corresponding to 3.079% (2.478%) of the total share capital.

In addition, during the financial year Ambu employees exercised a total of 1,452,000 (1,686,000) warrants to subscribe for shares in Ambu A/S.

In certain jurisdictions, Ambu obtains a deduction for employees' gains from the exercise of options and warrants. During the year, equity was increased by DKK 74m (DKK 82m), corresponding to the deductible value of employee gains.

# Follow-up on announced outlook
## relative to the results realised in 2017/18

Ambu most recently raised its outlook for 2017/18 in connection with the interim report for Q3 (23 August 2018). In addition, Ambu reaffirmed the outlook in connection with the capital markets day on 4 October 2018. The realised results for FY 2017/18 are on a par with or exceed the raised outlook.

| | Local currencies | | | | |
|---|---|---|---|---|---|
| | **Realised** | **23 August 2018** | **7 May 2018** | **31 January 2018** | **9 November 2017** |
| **Organic growth** | 15% | Approx. 15% | Approx. 14-15% | Approx. 13% | Approx. 13% |

| | Danish kroner | | | | |
|---|---|---|---|---|---|
| | **Realised** | **23 August 2018** | **7 May 2018** | **31 January 2018** | **9 November 2017** |
| **EBIT margin** | 21.6% | Approx. 21-22% | Approx. 20-21% | Approx. 20-21% | Approx. 20% |
| **Free cash flows** | DKK 321m | Approx. DKK 300m | Approx. DKK 300m | Approx. DKK 300m | Approx. DKK 275m |

# Quarterly results

| DKKm | Q4 2017/18 | Q3 2017/18 | Q2 2017/18 | Q1 2017/18 | Q4 2016/17 | Q3 2016/17 | Q2 2016/17 | Q1 2016/17 |
|---|---|---|---|---|---|---|---|---|
| **Composition of revenue, products:** | | | | | | | | |
| Anaesthesia | 247 | 244 | 228 | 207 | 232 | 235 | 236 | 221 |
| Visualisation | 249 | 218 | 211 | 158 | 178 | 154 | 160 | 105 |
| PMD | 233 | 211 | 212 | 188 | 219 | 212 | 217 | 186 |
| **Revenue** | **729** | **673** | **651** | **553** | **629** | **601** | **613** | **512** |
| **Key figures, revenue:** | | | | | | | | |
| Endoscopes sold, '000 units | 165 | 146 | 145 | 104 | 115 | 95 | 95 | 59 |
| Growth in number of endoscopes sold, % | 43 | 54 | 53 | 76 | 92 | 61 | 98 | 84 |
| **Composition of reported growth:** | | | | | | | | |
| Organic growth in local currencies, % | 15 | 17 | 15 | 14 | 14 | 16 | 14 | 11 |
| Exchange rate effects, % | 1 | -5 | -9 | -6 | -4 | 0 | 1 | 0 |
| **Reported revenue growth, %** | **16** | **12** | **6** | **8** | **10** | **16** | **15** | **11** |
| **Organic growth, products:** | | | | | | | | |
| Anaesthesia, % | 6 | 10 | 8 | 0 | -1 | 9 | -2 | 8 |
| Visualisation, % | 39 | 47 | 43 | 58 | 73 | 50 | 77 | 50 |
| PMD, % | 5 | 2 | 3 | 4 | 1 | 5 | 4 | 0 |
| **Organic growth in local currencies, %** | **15** | **17** | **15** | **14** | **14** | **16** | **14** | **11** |
| **Organic growth, markets:** | | | | | | | | |
| Europe, % | 11 | 19 | 14 | 12 | 18 | 13 | 16 | 5 |
| North America, % | 18 | 18 | 16 | 16 | 11 | 13 | 10 | 12 |
| Rest of the world, % | 16 | 3 | 16 | 11 | 10 | 40 | 19 | 36 |
| **Organic growth in local currencies, %** | **15** | **17** | **15** | **14** | **14** | **16** | **14** | **11** |
| Revenue | 729 | 673 | 651 | 553 | 629 | 601 | 613 | 512 |
| Production costs | -299 | -271 | -257 | -232 | -257 | -258 | -272 | -237 |
| **Gross profit** | **430** | **402** | **394** | **321** | **372** | **343** | **341** | **275** |
| *Gross margin, %* | *59.0* | *59.7* | *60.5* | *58.0* | *59.1* | *57.1* | *55.6* | *53.7* |
| Selling and distribution costs | -165 | -155 | -146 | -141 | -144 | -131 | -132 | -132 |
| Development costs | -27 | -34 | -26 | -24 | -20 | -20 | -18 | -18 |
| Management and administration | -73 | -62 | -66 | -65 | -74 | -62 | -60 | -60 |
| Other operating expenses | 0 | 0 | 0 | 0 | 0 | 0 | -10 | 0 |
| *Total capacity costs* | *-265* | *-251* | *-238* | *-230* | *-238* | *-213* | *-220* | *-210* |
| **Operating profit (EBIT)** | **165** | **151** | **156** | **91** | **134** | **130** | **121** | **65** |
| *EBIT margin, %* | *22.6* | *22.4* | *24.0* | *16.5* | *21.3* | *21.6* | *19.7* | *12.7* |
| Financial income | 0 | 3 | 6 | 3 | 8 | -13 | -5 | 23 |
| Financial expenses[1] | -27 | -7 | -44 | -32 | -29 | -9 | -6 | -26 |
| **Profit before tax[1]** | **138** | **147** | **118** | **62** | **113** | **108** | **110** | **62** |
| Tax on profit for the year[1] | -32 | -35 | -27 | -34 | -26 | -26 | -26 | -14 |
| **Net profit for the year[1]** | **106** | **112** | **91** | **28** | **87** | **82** | **84** | **48** |

# Quarterly results (continued)

| DKKm | Q4 2017/18 | Q3 2017/18 | Q2 2017/18 | Q1 2017/18 | Q4 2016/17 | Q3 2016/17 | Q2 2016/17 | Q1 2016/17 |
|---|---|---|---|---|---|---|---|---|
| **Balance sheet:** | | | | | | | | |
| Assets[1] | 4,234 | 4,167 | 4,046 | 4,068 | 2,500 | 2,501 | 2,507 | 2,529 |
| Net working capital | 535 | 558 | 538 | 460 | 457 | 483 | 506 | 491 |
| Equity[1] | 1,882 | 1,863 | 1,743 | 1,909 | 1,279 | 1,157 | 1,105 | 1,000 |
| Net interest-bearing debt | 1,245 | 1,410 | 1,241 | 981 | 767 | 896 | 997 | 1,061 |
| **Cash flows, in DKKm:** | | | | | | | | |
| Cash flows from operating activities | 216 | 181 | 70 | 87 | 160 | 139 | 90 | 73 |
| Cash flows from investing activities before acquisitions of enterprises and technology | -56 | -78 | -48 | -51 | -32 | -40 | -39 | -30 |
| Free cash flows before acquisitions of enterprises and technology | 160 | 103 | 22 | 36 | 128 | 99 | 51 | 43 |
| Acquisitions of enterprises and technology | 0 | -76 | -1 | -851 | 0 | 0 | 0 | 0 |
| **Cash flows, in % of revenue:** | | | | | | | | |
| Cash flows from operating activities | 30 | 27 | 11 | 16 | 25 | 23 | 14 | 14 |
| Cash flows from investing activities before acquisitions of enterprises and technology | -8 | -12 | -8 | -9 | -5 | -7 | -6 | -6 |
| Free cash flows before acquisitions of enterprises and technology | 22 | 15 | 3 | 7 | 20 | 16 | 8 | 8 |
| **Key figures and ratios:** | | | | | | | | |
| Capacity costs | 265 | 251 | 238 | 230 | 238 | 213 | 220 | 210 |
| Rate of cost, % | 36 | 37 | 37 | 42 | 38 | 35 | 36 | 41 |
| EBITDA | 194 | 182 | 184 | 118 | 161 | 156 | 147 | 91 |
| EBITDA margin, % | 26.6 | 27.0 | 28.3 | 21.3 | 25.6 | 26.0 | 24.0 | 17.8 |
| Depreciation | -14 | -12 | -12 | -11 | -12 | -11 | -11 | -11 |
| Amortisation | -15 | -19 | -16 | -16 | -15 | -15 | -15 | -15 |
| EBIT | 165 | 151 | 156 | 91 | 134 | 130 | 121 | 65 |
| EBIT margin, % | 22.6 | 22.4 | 24.0 | 16.5 | 21.3 | 21.6 | 19.7 | 12.7 |
| NIBD/EBITDA | 1.8 | 2.2 | 2.0 | 1.7 | 1.4 | 1.6 | 1.9 | 2.2 |
| Net working capital, % of revenue | 21 | 22 | 22 | 19 | 19 | 21 | 23 | 23 |
| **Share-related ratios:** | | | | | | | | |
| Market price per share (DKK) | 154 | 215 | 136 | 111 | 97 | 84 | 60 | 57 |
| Earnings per share (EPS) (DKK)[1] | 0.44 | 0.46 | 0.37 | 0.12 | 0.37 | 0.35 | 0.36 | 0.19 |
| Diluted earnings per share (EPS-D) (DKK)[1] | 0.43 | 0.45 | 0.36 | 0.11 | 0.36 | 0.34 | 0.35 | 0.19 |

[1]In accordance with IFRS, some figures from interim financial statements for Q1, Q2 and Q3 2017/18 previously presented have been changed with retrospective effect as a result of the updated fair value on acquisition of Invendo Medical GmbH. Read more in note 3.9.

# Corporate governance and shareholder information

Ambu's endoscopes are sterile and designed for single-use. Thus, they eliminate the risk of transmitting infection from one patient to the next.

# Risk management

Ambu has established policies and procedures which guarantee the efficient management of the identified risks, and the Ambu management focuses on ensuring satisfactory clarity about the group's risks at all times.

Ambu's activities involve a number of general and specific commercial and financial risks which may have a negative impact on the company's future growth, activities, financial standing and results. Ambu seeks to identify and quantify these risks via internal control and risk management systems, and the risks are hedged and limited to the greatest possible extent. However, the nature of Ambu's business, including production and development of new products, means that the company undertakes risks on an ongoing basis. The risk management systems are designed to ensure that only calculated risks are taken, and that these are constantly monitored and managed.

The risks which are deemed to have the largest potential impact on Ambu's business are described below. The description is not necessarily exhaustive, however, and the risk factors are not ranked in any order of priority.

**Market conditions**
In all Ambu's most important markets, there is a constant economic and political focus on reducing healthcare costs. At the same time, there is a general demand for efficiency increases in the healthcare sector. These structural changes are leading to a pressure on prices, while at the same time low-priced copies of products are being marketed in some product areas.

Ambu is constantly seeking to adapt its business to these trends, among other things via the following activities:

- Manufacturing in own factories in China and Malaysia and collaboration with partner who manufactures in India are crucial factors that enable us to maintain and increase our profit margin.
- An efficient supply chain which is pivotal in making us able to manage the commercial and regulatory risks we are subject to as a consequence of our global presence.
- Based on clinical documentation and health economics studies to position our products so that the price will not be the crucial parameter.
- Focus on sales via group purchasing organisations (GPOs). In Ambu USA, significant competences have been built up over many years within this field, as hospitals make many of their purchases via this channel.

**Product development**
Ambu's possibilities for realising its strategic targets depend on its ability to develop unique, high-quality products.

Developments in the medtech industry are fast-paced, and having a commercial understanding of the long-term needs of the sector is crucial to remain market-leading. An example of this is the conversion from multiple-use endoscopes to single-use products that ad more efficient workflows and improve patient safety because contamination risks are eliminated.

Ambu takes a targeted approach to improving its existing products, developing new technologies and generally strengthening the company's ability to innovate, for example by ensuring a commercial focus in its product development activities. For strategic technologies it is important to have the necessary technical competencies in-house.

In connection with the development of new products, there is focus on the environmental impacts of the materials used.

However, product development also involves a risk that the development projects are delayed and changed in the process resulting in increased development costs. We strive to take the necessary financial precautions in the extent that this is possible.

**Ability to attract and retain employees**
In order to attract and retain employees with the right competences, Ambu focuses on developing the individual employee, on continuous career development and on delegating a considerable degree of responsibility to its employees.

Finally, it is ensured at all times that Ambu offers competitive terms of pay and employment, including the opportunity to participate in employee share programmes.

**Trademarks, branding and patents**
The company logo and name create coherence between the company and its products and make the company easily recognisable to its customers and stakeholders. The Ambu name is included in all product names, and the active branding is intended to help prevent plagiarism. A branding strategy and a branding manual have been prepared to ensure the ongoing updating of the Ambu brand.

It is company policy to patent products with a high market value or growth potential. In the medtech industry, opinions often differ as to whether a given product is patented or not, for which reason patent cases may result in considerable costs to protect Ambu's rights or to defend Ambu against alleged infringements of patents. To minimise the risk of such cases being instituted, before embarking on any new projects, Ambu makes a point of ascertaining whether patents exist within a particular project area, thereby establishing what sort of 'freedom to operate' Ambu can expect.

Ambu pursues a policy of selectively registering trademarks for its most important products in its most important markets.

**Production and quality**
Operating disturbances or stoppages at Ambu's production units may affect Ambu's ability to deliver. In order to manage this risk, the production units are

subject to regular inspections, including inspections by external insurance brokers, consulting engineers etc. The conclusions from such inspections, combined with our own ongoing monitoring of the production environment, regularly result in the introduction of new measures in the form of fire protection, validation of alternative suppliers of critical components and raw materials as well as the building of safety stock.

The siting of Ambu's production facilities has been based on a risk assessment, including, among other things, an assessment of the risk of natural disasters, of the political climate, of issues related to foreign exchange and of the possibilities of attracting employees with the required qualifications.

In step with the growth in revenue, production capacity is continuously being assessed, resulting in continuous expansion of Ambu's production facilities as well as factory capacity.

Ambu's products are most often used in critical situations, and product quality is vital to the company's commercial success. Quality assurance is therefore a focus area for Ambu, both due to external regulatory requirements and as an active commercial parameter. With a view to meeting user needs and minimising patient risks, risk assessments, clinical trials and process validations are carried out in connection with product development and production, and Ambu's quality organisation is strengthened on an ongoing basis. Ambu lives up to the requirements of the US Food and Drug Administration (FDA) and the European CE requirements.

For all components and raw materials which are related to strategic products, the supply chain for production is ensured either by working with more than one subsupplier or by increasing the safety stock to an appropriate level.

FDA has conducted routine inspections at our US manufacturing site in November 2017 and at our Chinese manufacturing site in October 2018. Both inspections with a successful outcome. New Quality System Certifications according to ISO 13485:2016 have been obtained for all manufacturing and development sites and MDSAP certification has been obtained for Ambu and King Systems branded products.

During the coming years the new European Regulation on Medical Devices will enter into force and the implementation of these new requirements has been started.

**IT security**
Special procedures have been put in place to mitigate any potential losses caused by IT breakdowns. The emergency support system includes, among other things, the conclusion of service level agreements for all business-critical systems and the use of external data hosting, while redundancy has been established for the most important business systems. In recognition of the complexity involved in maintaining this emergency support system – for example maintaining the necessary IT competences to ensure general IT security – the operation and maintenance of networks and servers, back-up, access and firewalls have been outsourced to a reputable external partner.

**Insurance**
The company's insurance policy lays down the overall framework for the extent and management of insurance risks. The insurance policy contains guidelines on the group's security and insurance matters. Insurance matters and insurance risks are assessed annually in cooperation with insurance brokers. In addition to statutory insurance cover, the company has taken out product liability and operating loss insurance. Properties, operating equipment and inventories are covered on an all-risk basis at replacement cost.

**Financial risks**
The developments in Ambu's results and equity are impacted by a number of financial risks, including foreign exchange risks, interest rate risks, liquidity risks and credit risks as well as by the risk that the conditions of the international trade are changed – for instance by the implementation of toll barriers and limitations of free trade.

Ambu has centralised the management of financial risks in the group's finance function, which also acts as a service centre for all subsidiaries. The group does not engage in speculative transactions. Financial risks and financial risk management are described in further detail in note 4.1 to the consolidated financial statements.

# Corporate governance

Corporate governance refers to the philosophy governing the management of the company based on the shareholders' views on the ownership, management structures, risk, control systems, remuneration policies etc. Ambu strives to establish close and trusting relations with relevant stakeholders, including shareholders, employees, customers, suppliers and society as a whole. We also strive to ensure transparency, and we want to openly share relevant information with our stakeholders.

Ambu's Board of Directors complies with all Nasdaq Copenhagen's recommendations on corporate governance and reports on compliance on our website. This reporting constitute the statutory reporting on corporate governance pursuant to section 107 b of the Danish Financial Statements Act (*Årsregnskabsloven*).

## Shareholders

The shareholders own Ambu and exercise their right to make decisions at the annual general meeting, for example adopting the annual report, deciding on amendments to the Articles of Association, electing members of the Board of Directors and appointing the company's auditors. At the annual general meeting, shareholders are entitled to ask the Board of Directors and the Executive Board questions and suggest items for consideration.

All shareholders are entitled to attend and vote at the annual general meeting. The notice convening the annual general meeting is published at least three weeks and one day, and at the most five weeks before the date of the meeting. The documents are sent out to shareholders who have requested this. The notice can also be found on the Ambu website.

Ambu's Articles of Association do not impose any restrictions on ownership or voting rights, but the share capital is divided into Class A and Class B shares. Class A shares carry ten votes per share, while Class B shares carry one vote per share.

The Class A shares are non-negotiable, and according to Ambu's Articles of Association, a transfer of more than 5% of the total number of Class A shares at a price higher than that quoted for the company's Class B shares can take place only if the buyer offers all holders of Class A and Class B shares to buy their shares at the same price.

The Board of Directors regularly discusses the existing ownership structure with the holders of Class A shares. The Board of Directors and the holders of Class A shares agree that the ownership structure has been and remains expedient for all the company's stakeholders, as it creates a sound framework for the implementation of Ambu's strategy and plans, thereby safeguarding the interests of all shareholders. Moreover, the ownership structure does not restrict the planned activities in any way.

## Board of Directors

Ambu has a two-tier management structure, consisting of the Board of Directors and the Executive Board. The two bodies are independent of each other, and there is no overlap in membership.

On behalf of the shareholders, the Board of Directors is responsible for the overall management of Ambu, the formulation of objectives and strategies as well as the approval of the overall budgets and action plans. The Board of Directors also performs overall supervision of the company's activities, and ensures that Ambu is managed in a responsible manner and in compliance with legislation and the Articles of Association.

**Composition of the Board of Directors**
The Board of Directors currently has six members who have been elected by the shareholders at the annual general meeting and three members elected by the employees pursuant to the Danish rules on employee representation. The shareholder-elected members are elected for one year at a time, while the employee-elected members are elected for four years at a time under applicable legislation.

The Chairman and the Vice-chairman of the Board of Directors are elected directly by the general meeting.

For the Board of Directors to undertake its responsibilities and act as a good sounding board for the Executive Board and the Executive Management Team, the following competences are particularly relevant: Insights into the management of a global growth company, insights into the medico and medtech industries with both public and private-sector customers, experience with innovation, experience with the acquisition and divestment of enterprises and insights into risk management and financial affairs. Ambu's Board of Directors is deemed to possess these competences.

None of the members elected by the shareholders represent a controlling shareholder or have direct or indirect interests in the company over and above their interests as shareholders. All members elected by the annual general meeting are considered to be independent members, as defined by Nasdaq Copenhagen.

**Duties of the Board of Directors**
The Board of Directors held six (six) meetings during the financial year. On one occasion, one member elected by the general meeting was unable to attend.

The Executive Management Team participates in the meetings of the Board of Directors to ensure a direct dialogue and that the Board of Directors is well-informed about the company's operations.

Moreover, the Audit Committee held four (five) meetings during the year. The Audit Committee consists of three members of the Board of Directors, in addition to which the President & CEO, the CFO and the auditor appointed by the general meeting participate in the meetings. The purpose of the committee is to assist the Board of Directors in ensuring the quality and integrity of the presentation of the company's financial statements, reporting and auditing.

The Audit Committee reviews and discusses Ambu's risk exposure and initiatives launched to counter these risks. At the same time, the committee monitors all accounting and reporting processes, the auditing process and the work and independence of external auditors. The Charter of the Audit Committee and the review of the control and risk management systems in connection with the financial reporting can be found at www.ambu.com/auditcom.

The Board of Directors has set up a Remuneration Committee with three members of the Board of Directors, which held three meetings in the course of the financial year. Ambu's President & CEO participates in the meetings. The duties of the committee are to ensure that the remuneration offered by Ambu is competitive and sufficient to attract and retain the members of the Executive Board and to recommend future incentive schemes. The Charter of the Remuneration Committee can be found at www.ambu.com/remunerationcom.

In addition, the Board of Directors has established a Nomination Committee, which consists of the Chairman and the Vice-chairman of the Board of Directors. Ambu's President & CEO occasionally participates in the meetings. The Nomination Committee is charged with evaluating the composition of the Executive Management Team and with evaluating and possibly renewing the Board of Directors so as to ensure that the board members live up to the requirements and possess the skills needed in a fast-growing company. The Charter of the Nomination Committee can be found at www.ambu.com/nominationcom

## Executive Board

The Board of Directors appoints the Executive Board and lays down its terms of employment. The Executive Board is responsible for Ambu's day-to-day management, including the development of Ambu's activities and operations, its risk management, financial reporting and internal affairs. The Executive Board also prepares the company's strategy, budgets and targets for presentation to the Board of Directors. The delegation of powers and responsibilities by the Board of Directors to the Executive Board is described in Ambu's Order of Business and the provisions of the Danish Companies Act (*Selskabsloven*).

The Executive Board consists of President & CEO Lars Marcher and CFO Michael Højgaard.

## Corporate governance

The Board of Directors has considered the recommendations from the Committee on Corporate Governance (www.corporategovernance.dk) from May 2013, and as most recently amended in November 2014, and has systematically reviewed the recommendations in a document which can be found on the Ambu website (www.ambu.com/corpgov).

Ambu complies with all the committee's recommendations.

## Report on the gender composition of the management, pursuant to section 99 b of the Danish Financial Statements Act

Both on the Board of Directors and generally, Ambu will ensure that the most qualified person is appointed to a given position. The performance of all employees and managers is therefore assessed with reference to individual targets, and managers at all levels are measured in 180-degree surveys and assessed by their superiors and employees with reference to Ambu's management concept and values. Among other things, the evaluations form the basis of promotions and the delegation of new responsibilities.

As a global group, Ambu wants to encourage diversity and create equal opportunities for all, regardless of gender, age, ethnicity and political and religious convictions. This ambition is described in Ambu's Code of Conduct, which can be found on the Ambu website (www.ambu.com/CoC), and a policy has been prepared to ensure an increased proportion of women in management.

At the general meeting in 2017, only men were nominated for election to the Board of Directors, but in the past year, Ambu has been working to find a female candidate with the aim of increasing the number of members. Despite involving an internationally recognised recruitment company and the preparation of a short list of relevant candidates, the right candidate has not yet been found.

The process will be resumed as soon as possible with a view to meeting the target of women accounting for one seventh of the members of the Board of Directors elected by the general meeting in December 2019. At present, the Board of Directors consists of six members elected by the general meeting, none of whom are women.

In connection with the presentation of the annual report, it was ascertained that the share of female managers at other management levels (meaning employees with HR responsibilities) in companies covered by the requirements in section 99 b of the Danish Financial Statements Act is 37%, which is unchanged compared to last year.

Ambu will continually work to increase the share of the underrepresented gender at other management levels in the company with a view to meeting our target of 40% of such managers being women within the coming three years.

Focus will still be on the following initiatives aimed at promoting the underrepresented gender:

- In recruiting managers, the proportion of female candidates short-listed for a position must equal the proportion of female applicants for the position.
- In connection with internal promotions to managerial positions, efforts will be made to ensure that both genders are represented in the field of applicants, in so far as this is possible.

F*or a complete report on Ambu's corporate governance, including the policy on diversity and the Board of Directors' views on all the recommendations from the Committee on Corporate Governance, see the Corporate Governance section on the website* (*www.ambu.com/corpgov*).

# Board of Directors and Executive Board

## Board of Directors

**Jens Bager, born 1959**
Chairman, member of the Board since 2010.
Chairman of the Nomination Committee and the Remuneration Committee.
Position: Professional board member since 2016.
Honorary offices: Better Collective A/S (C).
Special competences: General management of major international, privately owned and listed companies.
No. of shares: 150,000 (400,000).

**Mikael Worning, born 1962**
Vice-Chairman of the Board of Directors, member of the Board since 2010.
Member of the Audit Committee and the Nomination Committee.
Position: President & COO of William Demant Inc.
Honorary offices: Various companies in the William Demant Group (MB).
Special competences: General management experience with focus on international sales and marketing of medtech products and management of international sales organisations.
No. of shares: 61,400 (61,400).

**Thomas Lykke Henriksen, born 1973**
Member of the Board since 2017.
Position: Senior HR Partner & HRIS Manager
Elected by the employees. Honorary offices: Viby Friskole (C).
No. of shares: 9,270

**Oliver Johansen, born 1971**
Member of the Board since 2015.
Member of the Remuneration Committee.
Position: Senior Vice President, Global R&D, Coloplast A/S.
Special competences: General management experience in the field of global innovation, production, sales and distribution of medtech products.
No. of shares: 4,420 (4,420).

**Jakob Koch, born 1979**
Member of the Board since 2017.
Position: Senior IP Manager
Elected by the employees
No. of shares: 1,045

**Jakob Bønnelykke Kristensen, born 1972**
Member of the Board since 2013.
Position: Director, Innovation Project Management, Global Innovation.
Elected by the employees.
No. of shares: 8,185 (8,030).

**Allan Søgaard Larsen, born 1956**
Member of the Board since 2011.
Member of the Remuneration Committee.
Co-owner of investment companies Liberatio A/S and Liberatio Investments A/S.
Owner of the family company Toft-Larsen Holding A/S.
Honorary offices: Obton Holding A/S (C), Blæksprutten ApS (C), Liberatio A/S (C), DUOS A/S (MB), Løkkefonden (MB), Toft-Larsen Holding A/S (MB).
Special competences: General management and special experience within the development and operation of international business activities in the cross-field between the public and private sectors.
No. of shares: 200,000 (200,000).

**Christian Sagild, born 1959**
Member of the Board since 2012.
Chairman of the Audit Committee.
Position: Professional board member
Honorary offices: Royal Unibrew (MB), Nordic Solar energy (C), Nordic Solar Global (C), SDG Invest (MB)
Special competences: General management of a listed company, special insights into financial matters and risk management.
No. of shares: 185,000 (125,000).

**Henrik Ehlers Wulff, born 1970**
Member of the Board since 2015.
Member of the Audit Committee.
Position: Executive Vice President of Novo Nordisk A/S.
Honorary offices: Novo Nordisk Pharmatech A/S (C).
Special competences: General management with experience in the field of global production, supply chain management and quality management, particularly in the area of GMP.
No. of shares: 10,645 (10,645).

## Executive Board

**Lars Marcher, born 1962**
President & CEO since 2008.
Honorary offices: Subsidiaries in the Ambu group (C), Handicare AB (C), Confederation of Danish Industry – Committee on International Market Policy (C), Medicoindustrien (C), AmCham Denmark (MB), Confederation of Danish Industry – Committee on Health Policy (MB), Danske Hospitalsklovne (MB).
No. of shares: 161,530 (160,365).

**Michael Højgaard, born 1964**
CFO since January 2013.
Honorary offices: Subsidiaries in the Ambu group (C/MB).
No. of shares: 22,110 (21,620).

*Honorary offices and shareholdings as per 1 October 2018.* C = *Chairman of the Board of Directors, VC = Vice-Chairman of the Board of Directors, MB = Member of the Board of Directors*

# Remuneration

**Remuneration policy**
Ambu's remuneration policy is complemented by the overall guidelines for an incentive programme for the Board of Directors and the Executive Board and was most recently presented at the general meeting in 2017.

Under the remuneration policy in its present form, it is possible to offer a base salary, a cash bonus element of up to 40% of the base salary, and a share-based element which can constitute up to 100% of the base salary based on a standard valuation.

Effective for the current Big Five 2020 strategy period, an additional share-based incentive scheme has been established for the Executive Board and the Executive Management Team entitled 'Big Five 2020', which in addition to the ordinary incentive scheme described above allows the allocation of additional share options equating to up to 300% of the annual salary at the end of FY 2019/20.

Moreover, pension contributions of up to 10% as well as company car and other usual non-cash staff benefits are offered.

Below follows a description of the most important elements and conditions set out in the applicable remuneration policy, including the elements received by the company's Board of Directors and Executive Board. A more detailed description can be found in the remuneration report, which is available on www.ambu.com.

**Board of Directors**
Members of the Board of Directors do not receive variable remuneration and are not part of share-based incentive schemes, but receive a fixed annual remuneration, which is approved by the general meeting.

In 2017/18, the basic remuneration for members of the Board of Directors, which was most recently adjusted at the general meeting in December 2017, constituted DKK 300,000. The Chairman receives three times the basic remuneration, while the Vice-Chairman receives two times the basic remuneration. Furthermore, the chairmen of the board committees receive a remuneration of DKK 150,000, while committee members receive DKK 100,000. The total remuneration paid to the Board of Directors, including the board committees, constituted DKK 4,300,000 in 2017/18. (2016/17: DKK 3,250,000). Members of the Nomination Committee do not receive a separate fee.

**Executive Board**
The remuneration for the Executive Board is determined by the Board of Directors based on market levels, Ambu's financial position and the competences, efforts and results of the individual members of the Executive Board. The remuneration consists of a fixed base salary, a cash bonus and participation in share-based incentive schemes in the form of options to buy Class B shares in Ambu A/S. In addition, members of the Executive Board receive pension contributions and usual non-cash benefits.

In the past financial year, the remuneration received by the Executive Board totalled DKK 26.3m (DKK 17.1m), composed as follows for the two members of the Executive Board:

| DKKm | **Lars Marcher** | | **Michael Højgaard** | |
|---|---|---|---|---|
| | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
| Fixed base salary | 6.3 | 5.3 | 3.1 | 2.6 |
| Pension contributions etc. | 0.9 | 0.8 | 0.6 | 0.3 |
| Cash bonus | 2.6 | 4.5 | 1.3 | 1.5 |
| Share-based payment* | 8.8 | 1.4 | 2.7 | 0.7 |
| **Total** | **18.6** | **12.0** | **7.7** | **5.1** |
| Total 2016/17 | DKK 17.1m | | | |
| **Total 2017/18** | **DKK 26.3m** | | | |

* The value of the share-based payment is calculated according to the Black-Scholes formula expensed over the service period.

The notices of termination to be given by Ambu to members of the Executive Board cannot exceed 18 months, and the notice of termination to be given by the members of the Executive Board to Ambu cannot normally exceed nine months. Moreover, any severance pay to members of the Executive Board, for example in the event of a change of control, is subject to a maximum value corresponding to two years' remuneration. In the event of the death of an Executive Board member, the company will pay up to 18 months' severance to the relatives of such Executive Board member.

**Description of variable remuneration policy components**
The variable components consist of a cash bonus and a share-based payment which depend on the financial results realised by Ambu.

The financial targets used to calculate any cash bonus and share-based payment are:
- Organic growth reported at fixed exchange rates
- EBIT in Danish kroner or EBIT margin calculated at fixed exchange rates
- Free cash flows denominated in Danish kroner (only for cash bonus).

The financial targets are defined annually in connection with the budget process and apply to allocations for the following financial year.

The effects of activities relating to Invendo are not included in the calculation of the financial targets for cash bonuses and share options for 2017/18, as the acquisition took place after the start of the financial year. For 2018/19 onwards, Invendo will be included on an equal footing with all other activities.

**Cash bonus**
For FY 2017/18, an agreement has been made concerning a cash bonus for the Executive Board based on the realisation of the following specific targets:

| | Threshold | On-target | Maximum |
|---|---|---|---|
| Organic growth | 10% | 13% | 16% |
| EBIT, DKKm | 477 | 534 | 585 |
| Free cash flows, DKKm | 266 | 285 | 325 |

Cash bonus agreements have been made with a three-figure number of Ambu employees, and all these bonus agreements are based on the above financial targets or derived components of these targets, possibly supplemented with non-financial targets.

Given the financial results realised in 2017/18, bonuses have been earned corresponding to an aggregate 37% of the base salaries plus pension and adjusted for costs associated with the operation of Invendo.

The total cash bonus payments to the Executive Board will amount to DKK 3,968,000 and will be paid out following the adoption of the annual report by the general meeting.

**Share-based payment**
Since 2007, Ambu has offered share-based incentive schemes for the Executive Management Team, regional managers and senior employees both at head office and in the subsidiaries. In addition, a number of employees have been offered a share-based payment based on their individual performance. Over the years, both options and warrants have been used, but with effect from the general meeting in 2017, it has been decided that, in future, Ambu will offer share-based payments in the form of options only.

Since 2012, four option-based programmes have been initiated, and four programmes based on warrants. Warrants were last used in 2016.

The allocation and calculation of options are based on the following main principles:

- The programmes are three-year programmes comprising a conditional allocation for the first year at the time of conclusion of the agreement, and successive conditional allocations for the next two years. The associated conditions include meeting the financial targets.
- The vesting period of the individual option is three years, after which the exercise period runs for three years. The expiration date is thus six years after the allocation date.
- Standard rules on good and bad leavers apply.
- The exercise price of the option is fixed as the market price at the time of the initial allocation with the addition of 8% and 8% per annum for the subsequent two annual allocations.
- The number of options vesting per year cannot exceed a value equating to 100% of the employee's fixed annual salary calculated according to the Black-Scholes formula.
- The financial targets are determined annually in connection with the adoption by the Board of Directors of the budget for the coming year.

For a number of employees, participation in the option scheme is offered in the form of an allocation for one year rather than three years, as described above. In all other respects, the terms of the programme are as described above, including as regards the vesting period, which is always three years.

The above is a description of the programme entered into by December 2017 at the latest and referred to as '2020' in the table below. The 2020 scheme is identical to the schemes from 2013 and 2015, except that the maximum value of the options that may be vested was increased from 33% to 100% of an annual salary at the general meeting in 2017.

The third allocation of options under the scheme initiated in 2015 will be based on the financial statements for FY 2017/18 and according to the principles applying to the first allocation under the 2020 scheme. The specific financial targets defined for both the 2015 and the 2020 programme are shown in the table below; however, such that allocations under the 2015 programme are based on on-target results only:

| | Threshold | On-target | Maximum |
|---|---|---|---|
| Organic growth | 9% | 13% | 16% |
| EBIT margin | 19.0% | 20.0% | 22.0% |

Based on the financial results realised in FY 2017/18, the aggregate allocation for the third year of the 2015 programme will equate to 100%, while the allocation for the first year of the 2020 programme will equate to 93%.

The final allocation of share options to the Executive Board on the basis of the financial statements for FY 2017/18 can be calculated as follows:

| *Number of options* | 2015 program-me | 2020 program-me | Total |
|---|---|---|---|
| CEO Lars Marcher | 260,650 | 201,827 | 462,477 |
| CFO Michael Højgaard | 125,020 | 46,883 | 171,903 |
| **Executive Board in total** | **385,670** | **248,710** | **634,380** |
| Other members of the Executive Management Team | 54,110 | 33,013 | 87,123 |
| Vice Presidents | | 241,297 | 241,297 |
| Others | | 95,339 | 95,339 |
| **TOTAL** | **439,780** | **618,359** | **1,058,139** |

Apart from the Executive Board, share options will be allocated to an additional 69 employees in connection with the annual report for 2017/18.

Concurrently with the 2020 scheme, another option scheme was launched in December 2017 entitled 'Big Five 2020'. The Big Five 2020 scheme is designed to provide an incentive for the Executive Board and the rest of the Executive Management Team to realise the financial targets defined in the strategy and to thereby ensure the successful transformation of Ambu.

The Big Five 2020 scheme is structured as follows:

- The scheme involves one allocation at the end of FY 2019/20 based on the realisation of the agreed financial targets.
- The vesting period of the option is three years, i.e. until the end of FY 2019/20. Then follows a 12-month waiting period, which means that the option can be exercised for a period of three years from October 2021.
- The exercise price of the option is determined according to the same principles as the 2020 scheme and with the addition of 8% per year over three years.
- The number of options which may be vested over three years cannot exceed a value equating to 300% of the employee's fixed annual salary calculated according to the Black-Scholes formula.

The specific financial targets for the Big Five 2020 programme are calculated exclusive of growth and earnings contributions from technologies related to the acquisition of Invendo, and are fixed as follows:

| | Threshold | On-target | Maximum |
|---|---|---|---|
| Three-year CAGR organic growth | 13% | 15% | 19% |
| EBIT margin in 2019/20 | 26.0% | 28.0% | 30.0% |

The allocation and vesting of options under the Big Five 2020 scheme take place at the end of FY 2019/20, as the growth target is the average growth (CAGR) realised during the three-year strategy period, and the EBIT margin target is the earnings realised in FY 2019/20.

Inclusive of growth and earnings contributions from the acquisition of Invendo, Ambu's financial targets for the Big Five 2020 strategy were increased on 4 October 2018 to CAGR growth of 16-19% and an EBIT margin in the range of 26-28% in 2019/20. As these figures fall somewhat short of the maximums required for the allocation of all options earmarked for the Big Five 2020 scheme, and as contributions from the technologies acquired through the acquisition of Invendo are not included in the calculation of the results achieved under the Big Five 2020 scheme, the options are not expected at present to be allocated in full, but this may, of course, change over the next two financial years.

**Employee shares**

In the past two financial years, employee shares have been allocated by Ambu each year. All employees have been offered the chance to buy shares in Ambu for up to 2% of their fixed annual salary at a discount of 50% of the share price applying immediately prior to such purchase, provided that the shares are held for two years. In both cases, approx. 650 employees decided to participate in the programme, on a global level. It has been decided that the programme will be repeated in FY 2018/19.

The table below provides an overview of all existing share-based programmes, shown for the two members of the Executive Board, other members of the Executive Management Team, Vice Presidents and other employees.

As regards the scope and value of the programmes, the following can be highlighted:

- Under the existing option schemes, a total of up to 16.2 million options have been or may be allocated, including up to 7.8 million options or 48% for the Executive Board.
- Options with an aggregate value of DKK 602m have been exercised, of which the Executive Board has received DKK 216m, corresponding to 36%.
- At the end of FY 2017/18, a total of 9.4 million options are outstanding, including 5.6 million or 60% belonging to the Executive Board.
- The value of the outstanding options is DKK 815m calculated at the closing price on Nasdaq OMX, of which the Executive Board accounts for 57%.
- Out of the value of the outstanding options, options worth DKK 608m have been allocated, and the remaining options in the amount of DKK 207m will be allocated in the coming two financial years, depending on the financial results realised.

# Existing share programmes

| | | Purchase options | | | | | | Warrants | | | | | Purchase options, employee shares | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2015 | 2020, year 1 | 2020, years 2 and 3 | 2020, Big Five | Sub-total | 2013 | 2014 | 2015 | 2016 | Sub-total | 2016 | 2017 | |
| Number of participants[1, 2] | Executive Board | 2 | 2 | 2 | 2 | 2 | | | | | | | 2 | 2 | |
| | Other members of the Executive Board | 2 | 3 | 2 | 2 | 2 | | | | | | | 2 | 2 | |
| | Vice Presidents | | | 29 | 26 | | | 25 | 21 | 25 | 27 | | 25 | 27 | |
| | Others | | | 38 | 17 | | | 27 | 1 | 21 | 44 | | 587 | 639 | |
| | **Total** | **4** | **5** | **71** | **47** | **4** | | **52** | **22** | **46** | **71** | | **616** | **670** | |
| Number of options issued[1, 2] ('000) | Lars Marcher, CEO | 2,752 | 790 | 217 | 549 | 1,246 | 5,554 | | | | | | 2 | 1 | 5,557 |
| | Michael Højgaard, CFO | 1,307 | 379 | 50 | 164 | 372 | 2,273 | | | | | | 1 | | 2,274 |
| | **Sub-total** | **4,059** | **1,170** | **267** | **713** | **1,618** | **7,827** | | | | | | **3** | **2** | **7,831** |
| | Other members of the Executive Board | 2,044 | 327 | 35 | 67 | 153 | 2,627 | | | | | | 1 | 1 | 2,628 |
| | Vice Presidents | | | 259 | 483 | | 743 | 1,540 | 1,990 | 665 | 290 | 4,485 | 11 | 6 | 5,244 |
| | Others | | | 103 | 140 | | 243 | 460 | 10 | 105 | 130 | 705 | 71 | 45 | 1,064 |
| | **Total** | **6,103** | **1,497** | **665** | **1,404** | **1,771** | **11,439** | **2,000** | **2,000** | **770** | **420** | **5,190** | **86** | **53** | **16,768** |
| | **Executive Board's share** | **67%** | **78%** | **40%** | **51%** | **91%** | **68%** | **0%** | **0%** | **0%** | **0%** | **0%** | **3%** | **3%** | **47%** |
| | Unconditionally allocated | yes | yes | yes | no | no | | yes | yes | yes | yes | | yes | no | |
| | Matured | yes | yes(year1) | no | no | no | | yes | yes | yes | no | | yes | no | |
| Value of exercised options, DKKm | Lars Marcher, CEO | 134 | | | | | 134 | | | | | | | | 134 |
| | Michael Højgaard, CFO | 81 | | | | | 81 | | | | | | | | 81 |
| | **Sub total** | **216** | | | | | **216** | | | | | | | | **216** |
| | Other members of the Executive Board | 130 | | | | | 130 | | | | | | | | 130 |
| | Vice Presidents | | | | | | | 86 | 156 | | | 243 | | | 243 |
| | Others | | | | | | | 11 | 2 | | | 14 | | | 14 |
| | **Total** | **346** | | | | | **346** | **98** | **159** | | | **257** | | | **602** |
| | **Executive Board's share** | **62%** | | | | | **62%** | **0%** | **0%** | | | **0%** | | | **36%** |
| Number of outstanding options ('000) | Lars Marcher, CEO | 1,680 | 790 | 202 | 549 | 1,246 | 4,468 | | | | | | 2 | 1 | 4,471 |
| | Michael Højgaard, CFO | 207 | 379 | 47 | 164 | 372 | 1,169 | | | | | | 1 | | 1,171 |
| | **Sub total** | **1,888** | **1,170** | **249** | **713** | **1,618** | **5,637** | | | | | | **3** | **2** | **5,642** |
| | Other members of the Executive Board | 376 | 236 | 33 | 32 | 74 | 751 | | | | | | 1 | 1 | 753 |
| | Vice Presidents | | | 241 | 483 | | 725 | 110 | 600 | 665 | 290 | 1,665 | 11 | 6 | 2,406 |
| | Others | | | 95 | 140 | | 236 | 40 | | 90 | 118 | 248 | 71 | 45 | 600 |
| | **Total** | **2,264** | **1,406** | **618** | **1,369** | **1,692** | **7,349** | **150** | **600** | **755** | **407** | **1,912** | **86** | **53** | **9,401** |
| | **Executive Board's share** | **83%** | **83%** | **40%** | **52%** | **96%** | **77%** | **0%** | **0%** | **0%** | **0%** | **0%** | **3%** | **3%** | **60%** |
| | Exercise price, DKK | 10 | 43 | 115 | 129 | 134 | | 13 | 23 | 39 | 77 | | 0 | 0 | |
| | Year of expiration | 2021 | 2023 | 2023 | 2025 | 2024 | | 2019 | 2020 | 2021 | 2022 | | 2018 | 2019 | |
| Market value of outstanding options as at 30 September 2018, DKKm | Lars Marcher, CEO | 243 | 88 | 8 | 14 | 25 | 378 | | | | | | | | 378 |
| | Michael Højgaard, CFO | 30 | 42 | 2 | 4 | 8 | 86 | | | | | | | | 86 |
| | **Sub total** | **273** | **131** | **10** | **18** | **33** | **464** | | | | | | | | **464** |
| | Other members of the Executive Board | 54 | 26 | 1 | 1 | 1 | 84 | | | | | | | | 84 |
| | Vice Presidents | | | 10 | 12 | | 22 | 16 | 79 | 76 | 22 | 192 | 2 | 1 | 216 |
| | Others | | | 4 | 4 | | 7 | 6 | | 10 | 9 | 25 | 11 | 7 | 50 |
| | **Total** | **327** | **157** | **24** | **35** | **34** | **577** | **21** | **79** | **86** | **31** | **217** | **13** | **8** | **815** |
| | Unconditionally allocated | 327 | 157 | 24 | | | 508 | 21 | 79 | 86 | 31 | 217 | 13 | | 738 |
| | Conditionally allocated | | | | 35 | 34 | 69 | | | | | | | 8 | 77 |
| | **Total** | **327** | **157** | **24** | **35** | **34** | **577** | **21** | **79** | **86** | **31** | **217** | **13** | **8** | **815** |
| | **Executive Board's share** | **83%** | **84%** | **40%** | **52%** | **96%** | **80%** | **0%** | **0%** | **0%** | **0%** | **0%** | **0%** | **0%** | **57%** |

[1]Share-based incentive schemes allocated prior to FY 2012/13 are not included in this table, including a three-year scheme for the Executive Board allocated in the financial years from 2008/09 to 2011/12. All purchase options related to this scheme had been exercised at the end of FY 2015/16.

[2]Calculated before cancellation of options due to non-vesting of options, resignations etc.

**Conditionally allocated:** A written agreement has been entered into stating that options are allocated on condition that future financial KPIs are achieved. / **Vested:** The financial KPIs have been determined, and the allocation has been calculated accordingly. All conditions are met, except for continued employment / **Matured:** The vesting period set out in the option agreement has expired, and the option can be freely exercised within the remaining term of the agreement

Further detailed information on remuneration is shown in note 5.5 and in the remuneration report, which is available on www.ambu.com/ir.

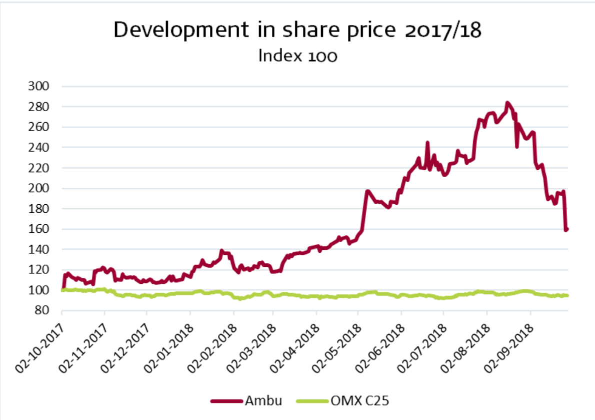
# Shareholders and investor relations

**Share split**
At Ambu's annual general meeting on 13 December 2017, it was decided to carry out a 1:5 share split with effect from January 2018. The nominal value of the company's Class A and Class B shares was changed from DKK 2.50 per share to DKK 0.50 per share. In other words, each original Class A or Class B share with a nominal value of DKK 2.50 was split into five new Class A or Class B shares with a nominal value of DKK 0.50. In connection with the share split, the ISIN code of the Class B share was changed to ISIN code DK0060946788, which was accepted for listing on Nasdaq Copenhagen with effect from 3 January 2018.

**Capital increase**
On 15 November, the Class B share capital was increased by 3% through a private placement, which at a price of 107 yielded net proceeds of DKK 667m.

**Return**
Ambu's Class B share opened the financial year at a price of 97 and ended the year at 154. Our shareholders consequently received a return of 59%, exclusive of dividend. In comparison, Nasdaq Copenhagen's C25 index fell 5% in the same period. The price increase and the capital increase have raised Ambu's market capitalisation from DKK 23.7bn to DKK 37.6bn, corresponding to an increase of 13.9bn.

**Ambu in C25**
Ambu was listed in 1992 and was a Small Cap stock until January 2011, when the company was moved into the Mid Cap group. In January 2017, Ambu was moved again, this time into the Large Cap category, and Ambu was included in the C25 index in June 2018.




**Liquidity**
In FY 2017/18, 189.6 million shares were traded on Nasdaq, equating to an average of 761,000 shares per business day.

**Treasury shares**
In the financial year, 3,850,000 treasury shares were acquired at an average price of 128.1, corresponding to a total acquisition cost of DKK 493m. At the end of the financial year, the portfolio of treasury shares comprises 7.7 million shares, corresponding to 3.079% of the share capital. Historically, Ambu has been authorised to acquire up to 10% of the share capital as treasury shares to cover the share option schemes, and there are no plans at the moment to change this policy.

**Shareholders**
The share capital has been increased to DKK 125,637,300 following four capital increases in connection with the exercise of employee warrants issued in 2013 and 2014. The number of Class B shares has been increased to 216,954,600 shares with a nominal value of DKK 0.50.The number of Class A shares has been increased from 6,864,000 shares of DKK 2.50 each before the share split to 34,320,000 shares of DKK 0.50 each.The rights attaching to the shares and their negotiability are unchanged.

Ambu's Class B share is listed on Nasdaq Copenhagen under the new ISIN code DK0060946788 and unchanged shortname AMBU-B, while the Class A share is unlisted and non-negotiable. All Class A shares are owned by the three lines of descendants of Ambu's founder Holger Hesse.

On 30 September 2018, the total number of shareholders in Ambu having arranged name registration of their holding was 22,567 (8,558), who held a combined 98% (97%) of the total share capital. As at 30 September 2018, the following shareholders had filed ownership of more than 5% of the share capital and/or votes:

| | Share of votes, % | Share of capital, % |
|---|---|---|
| Dorrit Ragle*, Kongens Lyngby | 19.1 | 1.9 |
| Inga Kovstrup*, Fredericia | 18.1 | 1.8 |
| Hannah Hesse, Frederiksberg | 10.3 | 2.4 |
| Simon Hesse, Virum | 10.2 | 2.3 |
| N.P. Louis Hansen ApS, Nivå | 6.6 | 14.7 |

** Dorrit Ragle and Inga Kovstrup have transferred a number of Class A shares to family members, but retain the voting rights associated with the shares transferred.*

Back in 1987, a shareholders' agreement was made by the holders of the Class A shares, which was described in the prospectus in connection with the listing of Ambu A/S in 1992. In November 2015, a new shareholders' agreement was made between the holders of the Class A shares, in which the agreed terms and conditions were updated. The updated shareholders' agreement now regulates the relationship between the three lines of the family and the family's views on the company's dividend policy, the appointment of candidates to the Board of Directors of the company, decisions concerning the possible conversion of Class A shares into Class B shares as well as the process of transferring or selling Class A shares.

The shareholders' agreement regulates only the family's holdings of Class A shares, while the family's holdings of listed Class B shares are not regulated by the shareholders' agreement.

Moreover, Ambu's Articles of Association contain provisions on the trading of Class A shares.

In addition to the Class A shares, the family also holds approx. 13.8 million Class B shares, corresponding to 6.4% (6.7%) of the Class B share capital. The family thus controls a total of 19.1% (19.9%) of the combined Class A and Class B share capital and 63.7% (64.7%) of the votes.

The international ownership interest has increased from 26% in the last financial year to approx. 32% of the capital, which is owned by institutional investors from, for example, Sweden, the UK, Germany and the USA.

**Investor relations**
Each quarter, a conference call has been held focusing on the interim report, and each quarter Ambu has participated in a considerable number of meetings and conferences with investors in Denmark and abroad. Ambu strives to ensure a high and uniform level of information for all stakeholders, and seeks an active dialogue with investors, share analysts, journalists and the general public.

Communication takes the form of the regular issue of company announcements, investor presentations, conference calls, meetings etc. The aim is to ensure a well-founded share price that reflects both the realised and the expected creation of value in Ambu. This is done by ensuring that investors' knowledge of Ambu is up to date, and that Ambu is regarded as credible, accessible and professional.

The share is covered by analysts from ABG Sundal Collier, Carnegie Bank, Danske Market Equities, Nordea Market Equities, J.P. Morgan and DNB Markets. The www.ambu.com website is updated on an ongoing basis with information about Ambu's results, activities and strategy, and all company announcements and financial statements can be viewed and downloaded there.

Ambu's IR policy prescribes a four-week 'quiet period'. This means that Ambu does not comment on topics relating to Ambu's business and which may be price-sensitive during a period of four weeks up to the release of financial reports.

During the year, Ambu issued 35 company announcements, including two major shareholder announcements.

The people in charge of Investor Relations and the contact with analysts and investors are:

- President & CEO Lars Marcher (lm@ambu.com)
- CFO Michael Højgaard (miho@ambu.com)
- IR Manager Nicolai Thomsen (nith@ambu.com)

## Financial calendar 2018/19

| 2018 | |
|---|---|
| 13 November | Annual report 2017/18 |
| 12 December | Annual general meeting |
| **2019** | |
| 3 January | Quiet period ending 31 January 2019 |
| 31 January | Interim report for Q1 2018/19 |
| 3 April | Quiet period ending 1 May 2019 |
| 1 May | Interim report for Q2 2018/19 |
| 25 July | Quiet period ending 22 August 2019 |
| 22 August | Interim report for Q3 2018/19 |
| 30 September | End of FY 2018/19 |

## Financial calendar 2019/20

| 2019 | |
|---|---|
| 16 October | Quiet period ending 13 November 2019 |
| 13 November | Annual report 2018/19 |
| 17 December | Annual general meeting |

## Proposals to the annual general meeting

Ambu is developing positively with satisfactory growth in revenue, increasing earnings and falling debt. In the past financial year, one major acquisition was made, and treasury shares in the amount of DKK 493m were acquired. A 3% capital increase was carried out, resulting in proceeds of DKK 667m. All in all, at the beginning of FY 2018/19 Ambu is in a strong and healthy financial position, and a clear direction has been set for the period up until 2020. Against this background, the Board of Directors recommends that Ambu still pursues a balanced dividend policy, distributing approx. 30% of the net profit for the year, but also that the dividend policy is regularly reviewed if necessary investments or potential acquisitions emerge which may significantly impact Ambu's financial position.

The Board of Directors therefore proposes to the general meeting that dividend of DKK 0.40 (DKK 0.37) be paid per share for FY 2017/18, corresponding to 30% (30%) of the net profit. The proposed dividend for the year equates to an 8% increase compared to last year, and the Board considers this level reasonable in view of Ambu's financial resources and the expected results in the coming financial year.

Against this background, the Board of Directors proposes that the net profit for the year of DKK 337m be appropriated as follows (DKKm):

| | |
|---|---|
| Dividend of DKK 0.40 per share | 101 |
| Retained earnings | 236 |
| **Total** | **337** |

Payment of the dividend will be effected automatically via VP SECURITIES A/S immediately after the annual general meeting.

The Board of Directors' authorisation to let the company acquire treasury shares was adopted by the general meeting in 2013 and expires on 11 December 2018. The Board of Directors therefore proposes that the general meeting renew the authorisation for a new five-year period, and that the scope of the authorisation be unchanged, meaning that the nominal value of the company's total portfolio of treasury shares must at no time exceed 10% of the company's share capital, always provided that the purchase price does not deviate by more than 10% from the listed share price at the date of acquisition. The authorisation is a standard procedure and a formal tool which enables appropriate adaptations of the capital structure to be made. The Board of Directors has no concrete plans to use the authorisation, and the proposal is therefore made simply to ensure the greatest possible flexibility for the Board of Directors.

The agenda for the annual general meeting with annexes is expected to be announced on Tuesday 20 November 2018. The general meeting will be held on Wednesday 12 December 2018 at Hotel Scandic Copenhagen, Vester Søgade 6, 1601 Copenhagen, Denmark. On the website, shareholders can sign up to attend the annual general meeting, and download all relevant material in relation to the general meeting.

# CSR report, pursuant to section 99 a of the Danish Financial Statements Act

**Ambu's approach to Corporate Social Responsibility**
Ambu is a company with more than 80 years of experience, and a history of innovative ideas and products. One of the elements in our core values is to Care for People, and in our work with CSR we have put emphasis on people, which in our interpretation includes our employees and the patients who benefit from our products every year.

Our presence in many markets with a diversity in culture requires a frame of reference for social responsibility and ethical behaviour. Our Code of Conduct sets the standard for us and our business partners, and we have a continued focus on corporate social responsibility and adherence to the UN Global Compact Principles.

Out of the UN Global Compact Principles the most relevant to Ambu are:

- Human Rights,
- Labour standards,
- Environment, and
- Anti-corruption

We believe these four areas are important, relevant and that they link very well to the Ambu core values, and how we strive to run our business.

Human Rights and Labour Standards are principles that Ambu continually focuses upon. As an employer of more than 2.700 people from a variety of cultures and locations, we believe our focus will promote a more uniform point of view on these matters, and we believe this to be necessary for our corporate unity and to ensure an ethical approach to employee rights. As an international developer and manufacturer of medical devices, the environmental impact is also an important focus. Our products are handled continually by health care professionals, and patient care is top of mind. We have a global manufacturing presence and thereby a responsibility to monitor and minimize our environmental footprints on both the local and global scene. Corruption is also a challenge, that must be addressed with concrete tools. Doing business in a transparent manner may present differing challenges, and consequently it is important to ensure that our anti-corruption stance is clear to all business partners.

The Ambu Core Values – the Ambu ABC – are:

- Look **A**head
- Do Our **B**est
- **C**are for People

They are the building blocks for our company – and our CSR program. We recognize that the focus on CSR will be value-creating towards 2020 and beyond.

## Human rights

At Ambu we support the global compact principle of Human Rights by focusing on: Right to Privacy and a Safe and Healthy Working Environment for all employees.

Risk Assessment: Products are produced manually and by mechanical means, with the possibility of personal injuries may occur.

Management: Methods going forward will include working further with the implementation of rotation in the workforce in our factories, lower ration short-term employees and focus on retention and training of employees in all locations.

**Right to Privacy**

*Policies*
With the EU General Data Protection Regulation having come into effect, Ambu's awareness of the Right to Privacy has been strengthened throughout the European organization. We have set up policies to enforce stricter processing of personal data and ensured that these guidelines are communicated to all relevant persons in the company.

*Actions*
In addition to implementing policies regarding the processing of personal data (in EU the GDPR) Ambu has established data processing agreements with our relevant business partners, ensured that data subject rights can be honoured within the legal time constraint, taken measures to ensure the safety of our digital tools, including mapping processes and systems involving personal data, and safeguarding appropriately. We have also created awareness and strengthened the culture within the field of data protection in the organization. This work will continue in the future, where we will focus further on our learning processes, like developing our e-learning systems and improving controls.

*Results*
During the past year, we have focused on being able to ensure data subjects rights and having a complete overview of processes and systems holding personal data. In addition, Ambu effectuated a clean-up in accordance with the legislation. We believe the risk of violating privacy rights to be minimal due to security measures, policies and awareness within our organisation.

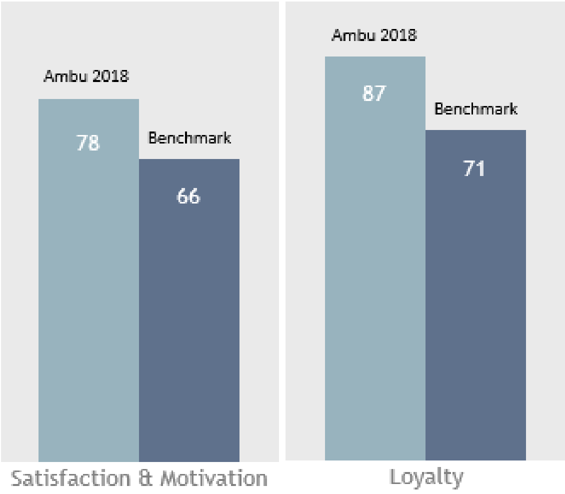
**Safe and healthy working environment**

*Policies*
As a part of our focus on retaining the best employees and at the same time ensure a competent and satisfied

workforce, an external agency conducts our Employee Engagement Survey. This has been effectuated every third year for all employees except colleagues on hourly pay.

We have global policies in place for ensuring a safe working environment and local procedures to ensure we comply with all local safety legislation at our locations around the world.

*Actions*
The participation rate in the Employee Engagement Survey 2018 was at 87%. On average across all Ambu locations in USA, Europe and the Asia-Pacific, 'Satisfaction & Motivation' was scored 78 points out of 100, which is 12 points higher than the benchmark. The average score for 'Loyalty' at Ambu was 87, which is 16 points above the benchmark.




Ambu also reports on the level of industrial injuries, and the results are discussed regularly by management. Our workforce is of the outmost importance to us, and decreasing the number of industrial injuries has our focus. Methods going forward will include working further with the implementation of rotation of the workforce in our factories, lower ratio short-term employees and focus on retention and training of employees in all locations.

*Results*
The Employee Engagement Survey going forward will include all employees in Ambu, including our hourly paid colleagues.

Ambu will continue to focus on employee retention to minimize industrial injuries and ensure qualified labour force.

We believe that our focus on employee engagement and our efforts to ensure a safe working environment reduces the risk of not being able to attract a competent workforce at our locations.

## Labour standards

In supporting the principles of the UN Global Compact on labour standards, Ambu has a continuous focus on all four principles:

- freedom of association and the effective recognition of the right to collective bargaining;
- the elimination of all forms of forced and compulsory labour;
- effective abolition of child labour; and
- the elimination of discrimination in respect of employment and occupation.

Ambu stands firm to ensure that child labor is not possible within the Ambu group, and keeps a focus on gender equality and non-discrimination to ensure equal rights and possibilities within our company.

Ambu also fully recognizes and upholds the right to freedom of association and collective bargaining. All employees are protected by their national labour legislation, which entitles them to authorize a union to represent them. Ambu will always respect the right of collective bargaining on the employees' behalf, as well as their right to unionize.

Ambu takes a strong stance against any form of forced or compulsory labour, and all employees are regulated by contracts ensuring their rights as employees as well as transparency in the relation between employer and employee.

Risks: Breach of human rights and working conditions in the supply chain.

Management: Ambu's code of conduct makes demands for Ambu Business partners, including suppliers, to respect labour standards, human rights and the prohibition against child labour.

**Child Labour**

*Policy*
There is a strict policy of not employing minors in any position within the company. The policy is known to all managers and employees involved in recruitment.

*Actions*
Ambu does not employ persons under the age of 18, even though some locations have a legislative minimum age requirement of 14. Documentation for fulfilling the age requirement of 18 years is required before employment is initiated.

*Results*
Ambu has no employees under the age of 18. In addition, our A and B suppliers also adapt to our code of conduct. A part of our code of conduct is the adherence to not in any way be complicit in child labour.

**Gender equality and non-discrimination**

*Policy*
Ambu is an equal opportunity employer, and only merits are the defining factor in the hiring process. Ambu has a clear ambition to promote diversity and create equal opportunities for all regardless of gender, age, ethnicity and convictions. The global recruitment policy and our code of conduct both support this ambition.

*Actions*
Ambu has focused on a fair and non-discriminatory salary process for all production sites, including ensuring equal pay for foreign workers.

Ambu has also increased its focus upon attracting qualified women to its Board of Directors and going forward the goal is that at least one out of seven should be a female board member. This should be achieved within the year 2019.

On the managerial level, Ambu has 223 managers, and 82 of them are of the underrepresented gender (37% women).

Ambu will continue to work to increase the proportion of the underrepresented gender in the company's managerial level so that our target of 40% women in the managerial level can be achieved over the next three years.

Going forward Ambu will continue to focus on attracting the best employees of both genders, while also focusing upon ensuring a more equal representation of the underrepresented gender in managerial positions. The following initiatives will remain in focus to promote the underrepresented gender:

- In connection with recruitment to management positions, the proportion of female candidates on the "short list" must be the same as the total percentage of female applicants for the position.
- With regard to internal promotions for management positions, it is aimed, to the extent possible, that both genders are represented in the field of candidates.

*Results*
Ambu has secured equal pay for equal work in their locations. This means, regardless of nationality or gender, an employee will receive the wages equivalent to the standard for the position in the country of work. Ambu also cements the expectations that all employees work to create a work environment of fairness and equal opportunity in the Ambu Handbook.

## Environment

At Ambu, we care about the environment, and we work continuously to try to minimize our environmental footprints, especially with our products being single-use.

For example, a recent study has investigated the environmental impact of disposing single-use bronchoscopes compared to the cleaning process of reusable bronchoscopes. Results revealed a slightly lower environmental impact, e.g. $CO_2$ emission, for disposal of the single-use bronchoscope compared to cleaning a reusable bronchoscopes.

At Ambu, we focus on removing harmful Phthalates from all products, on responsible recycling of waste, and on making sure our energy consumption is as low as possible.

Risks: Manufacturing of our products involves an inherent but minor negative influence on the environment.

Management: Focus on optimizing our energy consumption and increasing recycling, as well as phasing out phthalates in our products.

**Phthalates**

*Policies*
Ambu is committed to minimizing our footprints on the environment. Consequently, we always consider if our products could be manufactured in a manner less harmful. We have an ambition that phthalates in our products will be eliminated by the end of 2019.

*Actions*
Continue substitution of phthalates.

*Results*
During 2017/18, Ambu has very successfully substituted phthalates in breathing bags and a wide range of accessories used with the circuits, for example Adult Nasal Cannula, Oxygen Tubing, Oxygen Tube Connector, Bubble Tubing. 90 % of Ambu circuits are now manufactured without phthalates.

**Waste and responsible recycling**

*Policies*
Ambu has a climate change and environmental policy in place, which defines our work toward sustainable solutions in our production. We always attempt to recycle as much as possible.

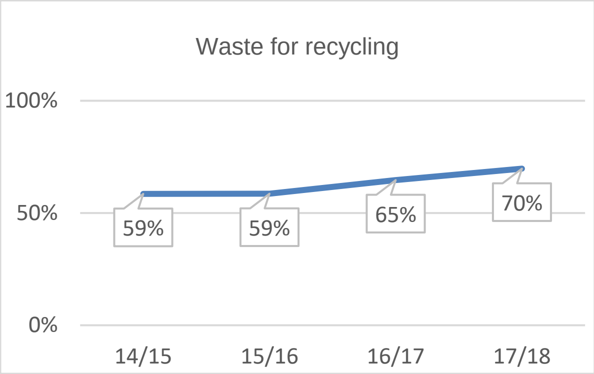
*Actions*
We continuously investigate possibilities of recycling the waste generated from the manufacturing, packaging and disposal of our products.

Ambu's production plants have worked to improve on their manufacturing process, in order to minimize the amount of hazardous waste produced. The work to implement standardized reporting mechanisms for measuring the precise amount of waste produced at all sites has begun.

*Results*
Our production plant in North America has succeeded in going from a Large Quantity Generator (by Environmental Protection Agency standards) to a Small Quantity Generator of hazardous waste. Going forward, we work toward achieving an even better rating.

Ambu production facilities in Malaysia, China and the US have been working to increase the recycling of production waste via waste separation at source as well as selling the waste for recycling outside Ambu. Over a four-year period, we have succeeded in significantly increasing the level of recycling through our focused efforts.

Our global recycling rate has improved from 65% to 70% over the past year:




Going forward, Ambu will attempt to improve on the recycling rate and find innovative uses for the recycled materials. However, some products are more suited for recycling than other products, and it will be important for Ambu to continue to explore the possibilities. As an example, the Chinese plant is working on reducing the total amount of waste by re-using surplus raw materials from specific processes in the production itself.

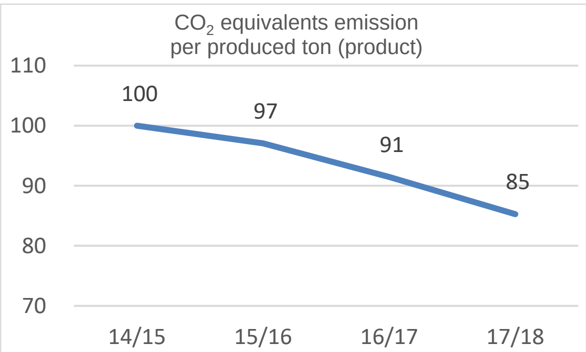
*Partnering for recycling*
Together with other companies within our field, Ambu engage with universities to investigate the possibility of recycling PVC medical waste from hospitals and recover high quality material that can be recycled for use in new products.

## Energy Consumption

*Policies*
Ambu attempts to limit its energy consumption in all processes, and factor in the environmental impact when choosing suppliers, selecting material, choosing means of transport and deciding on use of printed materials. We have a Climate Change and Environmental Policy which has been implemented throughout the organization.

*Actions*
Ambu collects climate data from its factories and convert the data into $CO_2$ equivalents per year.

*Results*
The data shows that the development in $CO_2$ equivalents is lower than the increase in production output (in tons). Ambu works each year to reduce $CO_2$ emissions per ton produced. The result is measured globally shown below with 14/15 as basis year:




## Anti-corruption

Ambu focuses on preventing corruption – both within the company itself and in the geographical locations, where we are present. We have a strict anti-bribery policy, a newly updated code of conduct, and we attempt to ensure that our closest business partners adopt the same stringent approach.

Risks: The largest risk within the area of anti-corruption is within the emerging markets.

Management: Strict policy, whistleblower initiative and code of conduct with a zero tolerance for facilitation payments.

**Anti-bribery**

*Policy*
Ambu has a policy on anti-bribery, which clarifies our stand on giving, receiving, offering or providing anything of value. The policy has been made clear to all employees, and is available on our Intranet and our website. Ambu also has a whistleblower initiative.

*Actions*
Going forward in 2018/2019, the whistleblower initiative will be expanded to also include external partners. This means, that not only employees will be able to report breaches of policy and law, but also our business partners will be able to point out objectionable conditions.

*Results*
No identified issues have been reported or resulted in action by the management in financial year 2017/18.

**Code of Conduct**

*Policies*
Ambu has updated its Code of Conduct and will continue to influence its suppliers and business partners to adopt the Ambu Code of Conduct or one with at least the same level of commitment to the UN Global Compact Principles and the UN Sustainable Development Goals.

*Actions*
The Code of Conduct has been pushed out to all A and B suppliers across our locations. In some locations the Code of Conduct has also been pushed out to category C suppliers as well.

*Results*
All Ambu A and B suppliers have signed the Ambu Code of Conduct.

Ambu's procurement department will continue to be principal in ensuring that all new suppliers adopt our Code of Conduct upon entering into a business relationship with Ambu.

## Local Initiatives and working with CSR in the future

The work to establish a process for validating results, streamlining the process surrounding reporting non-financial KPI's and increasing awareness within the organization as to the established CSR-group structure will continue. Ambu initiatives also include:

- Continued focus on achieving a more equal representation of both genders in management and on the Board of Directors
- Continued focus on substitution of phthalates
- Continued focus on energy optimization in all geographies
- Continued support to local education. In our locations in Malaysia and China, we promote the use of technical students for internships and temporary replacements to ensure work experience and traineeships for the local students.
- The tuition reimbursement program in the US location will continue, in order to financially assist eligible employees who satisfactory complete approved courses in recognized schools.
- The Champ Camp, in our US location, which is a summer camp for children and adolescents with tracheostomies and those who require technological respiratory assistance, will continue to receive both financial support, and our employees will continue to be supported in their efforts as volunteers.

**CSR Risks**

For further information about CSR risks, please refer to the section Commercial and CSR risks above.

# Consolidated financial statements 2017/18



Ambu was founded in 1937 by one man. Today, there are 2,700 of us worldwide.

# Income statement and statement of comprehensive income – Group

1 October – 30 September

DKKm

| Income statement | Note | 2017/18 | 2016/17 |
|---|---|---|---|
| Revenue | 2.1 | 2,606 | 2,355 |
| Production costs | 2.2, 2.3 | -1,059 | -1,024 |
| **Gross profit** | | **1,547** | **1,331** |
| Selling and distribution costs | 2.2, 2.3 | -607 | -539 |
| Development costs | 2.2, 2.3, 2.4 | -111 | -76 |
| Management and administration | 2.2, 2.3, 5.5 | -266 | -256 |
| Other operating expenses | 2.5 | 0 | -10 |
| **Operating profit (EBIT)** | | **563** | **450** |
| Financial income | 4.3 | 12 | 13 |
| Financial expenses | 4.3 | -110 | -70 |
| **Profit before tax** | | **465** | **393** |
| Tax on profit for the year | 2.7 | -128 | -92 |
| **Net profit for the year** | | **337** | **301** |
| **Earnings per share in DKK** | | | |
| Earnings per share (EPS) | 4.6 | 1.39 | 1.27 |
| Diluted earnings per share (EPS-D) | 4.6 | 1.36 | 1.24 |

| Statement of comprehensive income | 2017/18 | 2016/17 |
|---|---|---|
| Net profit for the year | 337 | 301 |
| Other comprehensive income: | | |
| *Items which are moved to the income statement under certain conditions:* | | |
| Translation adjustment in foreign subsidiaries | 19 | -54 |
| *Adjustment to fair value for the year:* | | |
| Cash flow hedging, realisation of previous years' deferred gains/losses | 1 | -3 |
| Cash flow hedging, reclassification to the income statement | 5 | 0 |
| Cash flow hedging, deferred gains/losses for the year | 0 | -6 |
| Tax on hedging transactions | -1 | 2 |
| **Other comprehensive income after tax** | **24** | **-61** |
| **Comprehensive income for the year** | **361** | **240** |

# Balance sheet – Group

30 September

DKKm

| Assets | Note | 30.09.18 | 30.09.17 |
|---|---|---|---|
| Acquired technologies, trademarks and customer relations | 3.1 | 146 | 163 |
| Acquired technologies in progress | 3.1 | 661 | 0 |
| Completed development projects | 3.1 | 130 | 147 |
| Development projects in progress | 3.1 | 131 | 45 |
| Rights | 3.1 | 67 | 79 |
| Goodwill | 3.1 | 1,505 | 781 |
| **Intangible assets** | | **2,640** | **1,215** |
| Land and buildings | 3.3 | 286 | 183 |
| Plant and machinery | 3.3 | 93 | 86 |
| Other plant, fixtures and fittings, tools and equipment | 3.3 | 47 | 36 |
| Prepayments and plant under construction | 3.3 | 29 | 62 |
| **Property, plant and equipment** | | **455** | **367** |
| Deferred tax asset | 2.8 | 154 | 98 |
| Other receivables | 4.2 | 0 | 4 |
| **Other non-current assets** | | **154** | **102** |
| **Total non-current assets** | | **3,249** | **1,684** |
| Inventories | 3.4 | 382 | 313 |
| Trade receivables | 3.5, 4.2 | 478 | 437 |
| Other receivables | 4.2 | 19 | 14 |
| Income tax receivable | | 7 | 2 |
| Prepayments | | 36 | 31 |
| Cash | 4.2, 4.4 | 63 | 19 |
| **Total current assets** | | **985** | **816** |
| **Total assets** | | **4,234** | **2,500** |

| Equity and liabilities | Note | 30.09.18 | 30.09.17 |
|---|---|---|---|
| Share capital | 4.5 | 126 | 122 |
| Other reserves | | 1,756 | 1,157 |
| **Equity** | | **1,882** | **1,279** |
| Deferred tax | 2.8 | 40 | 2 |
| Provisions | 4.2, 5.1 | 36 | 36 |
| Contingent consideration | 4.2, 5.2 | 498 | 0 |
| Interest-bearing debt | 4.2, 4.4 | 1,304 | 83 |
| **Non-current liabilities** | | **1,878** | **121** |
| Provisions | 4.2, 5.1 | 4 | 3 |
| Interest-bearing debt | 4.2, 4.4 | 4 | 703 |
| Trade payables | 4.2 | 194 | 160 |
| Income tax | | 79 | 23 |
| Other payables | 4.2 | 186 | 182 |
| Derivative financial instruments | 4.2 | 7 | 29 |
| **Current liabilities** | | **474** | **1,100** |
| **Total liabilities** | | **2,352** | **1,221** |
| **Total equity and liabilities** | | **4,234** | **2,500** |

# Cash flow statement – Group

30 September

DKKm

| | Note | 2017/18 | 2016/17 |
|---|---|---|---|
| Operating profit (EBIT) | | 563 | 450 |
| Adjustment of items with no cash flow effect | 3.6 | 141 | 116 |
| Changes in net working capital | 3.7 | -66 | 19 |
| Interest expenses and similar items | | -44 | -32 |
| Income tax paid | | -40 | -91 |
| **Cash flows from operating activities** | | **554** | **462** |
| | | | |
| Purchase of non-current assets | | -234 | -159 |
| Sale of non-current assets | | 0 | 16 |
| Divestment of subsidiary in respect of previous years | | 1 | 2 |
| Cash flows from investing activities before acquisitions of enterprises and technology | | -233 | -141 |
| | | | |
| **Free cash flows before acquisitions of enterprises and technology** | | **321** | **321** |
| | | | |
| Acquisition of technology | 5.1 | -2 | 0 |
| Acquisitions of enterprises | 3.9, 5.2 | -926 | 0 |
| Cash flows from acquisitions of enterprises and technology | | -928 | 0 |
| | | | |
| **Cash flows from investing activities** | | **-1,161** | **-141** |
| | | | |
| **Free cash flows after acquisitions of enterprises and technology** | | **-607** | **321** |
| | | | |
| Redemption of corporate bonds | 3.8 | -701 | 0 |
| Raising of long-term debt | 3.8 | 1,960 | 0 |
| Repayment of debt to credit institutions | 3.8 | -760 | -275 |
| Refund received in connection with the raising of lease debt | 3.8 | 25 | 0 |
| Repayment in respect of finance leases | 3.8 | -3 | -4 |
| Redemption of derivative financial instruments | 3.8 | -12 | 0 |
| Exercise of options | | 20 | 8 |
| Purchase of treasury shares | 4.5 | -493 | 0 |
| Sale of treasury shares, employee share programme | | 6 | 0 |
| Dividend paid | | -92 | -75 |
| Dividend, treasury shares | | 2 | 2 |
| Capital increase, Class B share capital | | 699 | 21 |
| **Cash flows from financing activities** | | **651** | **-323** |
| | | | |
| **Changes in cash and cash equivalents** | | **44** | **-2** |
| | | | |
| Cash and cash equivalents, beginning of year | | 19 | 21 |
| Translation adjustment of cash and cash equivalents | | 0 | 0 |
| **Cash and cash equivalents, end of year** | | **63** | **19** |
| | | | |
| **Cash and cash equivalents, end of year, are composed as follows:** | | | |
| Cash | | 63 | 19 |
| Bank debt | | 0 | 0 |
| **Cash and cash equivalents, end of year** | | **63** | **19** |

# Statement of changes in equity – Group

30 September

DKKm

| | Share capital | Share premium | Reserve for hedging trans-actions | Reserve for foreign currency translation adjustment | Retained earnings | Proposed dividend | Total |
|---|---|---|---|---|---|---|---|
| **Equity 1 October 2017** | **122** | **57** | **-5** | **70** | **945** | **90** | **1,279** |
| Net profit for the year | | | | | 236 | 101 | 337 |
| Other comprehensive income for the year | | | 5 | 19 | | | 24 |
| **Total comprehensive income** | **0** | **0** | **5** | **19** | **236** | **101** | **361** |
| *Transactions with the owners:* | | | | | | | |
| Termination of reserve | | -752 | | | 752 | | 0 |
| Share-based payment | | | | | 26 | | 26 |
| Tax deduction relating to share options | | | | | 74 | | 74 |
| Exercise of options | | | | | 20 | | 20 |
| Purchase of treasury shares | | | | | -493 | | -493 |
| Sale of treasury shares, employee share programme | | | | | 6 | | 6 |
| Distributed dividend | | | | | -2 | -88 | -90 |
| Dividend, treasury shares | | | | | 2 | -2 | 0 |
| Share capital increase, warrants | 1 | 31 | | | | | 32 |
| Share capital increase, ordinary | 3 | 664 | | | | | 667 |
| **Equity 30 September 2018** | **126** | **0** | **0** | **89** | **1,566** | **101** | **1,882** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Equity 1 October 2016** | **121** | **37** | **2** | **124** | **631** | **75** | **990** |
| Net profit for the year | | | | | 211 | 90 | 301 |
| Other comprehensive income for the year | | | -7 | -54 | | | -61 |
| **Total comprehensive income** | **0** | **0** | **-7** | **-54** | **211** | **90** | **240** |
| *Transactions with the owners:* | | | | | | | |
| Share-based payment | | | | | 11 | | 11 |
| Tax deduction relating to share options | | | | | 82 | | 82 |
| Exercise of options | | | | | 8 | | 8 |
| Distributed dividend | | | | | | -73 | -73 |
| Dividend, treasury shares | | | | | 2 | -2 | 0 |
| Share capital increase, warrants | 1 | 20 | | | | | 21 |
| **Equity 30 September 2017** | **122** | **57** | **-5** | **70** | **945** | **90** | **1,279** |

Other reserves are made up of share premium, reserve for hedging transactions, reserve for foreign currency translation adjustment, retained earnings and proposed dividend and total DKK 1,756m (2017: DKK 1,157m).

As at 30 September 2018, the reserve for share premium not required by the Articles of Association has been dissolved through transfer to the reserve for retained earnings.

# Notes on the consolidated financial statements

Sections 1-5

# Section 1:
# Basis of preparation of consolidated financial statements

This section provides an overview of the accounting policies applied as well as material estimates and assessments by the management.

All the companies in the Ambu group follow the same accounting policies, and the basic practice is described in this section. The specific accounting policies are included under the respective notes in Sections 2-5.

# Basis of preparation of consolidated financial statements

Notes on the consolidated financial statements – Section 1

## 1.1 Basis of preparation

Th group's general accounting policies are described below. In connection with this, specific accounting policies have been incorporated into each of the individual notes to the consolidated financial statements:

2.1 Revenue
2.2 Staff costs
2.5 Other operating expenses
2.7 Income taxes
2.8 Deferred tax
3.1 Intangible assets
3.2 Impairment test
3.3 Property, plant and equipment
3.4 Inventories
3.5 Trade receivables
4.2 Financial instruments
4.3 Net financials
4.5 Share capital and treasury shares
4.6 Earnings per share
5.1. Provisions
5.2 Contingent consideration
5.5 Share-based payment
5.10 Adoption of the annual report etc.
5.11 Key figure and ratio definitions

**General**
The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), IFRS as adopted by the EU and additional requirements in the Danish Financial Statements Act. The group's ultimate parent company, Ambu A/S, is a public limited company domiciled in Denmark.

The financial statements of the parent company, Ambu A/S, are presented separately from the consolidated financial statements and can be found on the last pages of this report. The parent company's separate accounting policies are shown in conjunction with the financial statements of the parent company.

The accounting policies described below have been applied consistently in the preparation of the consolidated financial statements in the years presented. The accounting policies have been applied consistently with previous years.

**Basis of measurement**
The consolidated financial statements are presented in Danish kroner (DKK), which is also Ambu A/S's functional currency. All amounts are rounded to the nearest million, unless otherwise stated.

The annual report has been prepared in accordance with the historical cost principle, except for derivative financial instruments and contingent consideration for business combinations, which are measured at fair value.

**Definition of materiality**
The consolidated financial statements represent matters that have been deemed to be material or required under the IFRS provisions or additional requirements in the Danish Financial Statements Act.

Ambu includes qualitative and quantitative factors when assessing whether a relationship is material. If the presentation or disclosure of a matter does not increase the informative value for the person reading the financial statements, the matter is deemed to be immaterial.

**Material accounting estimates**
In connection with the preparation of the consolidated financial statements, the management makes material accounting estimates, assessments and assumptions which form the basis of the presentation, recognition and measurement of the group's assets and liabilities for accounting purposes.

The estimates made are based on assumptions deemed to be reasonable by the management, but which are naturally subject to uncertainty. Such assumptions may be incomplete or inaccurate, and unexpected events or incidents may occur. Furthermore, the company is subject to risks and uncertainties which may cause the realised results to deviate from the estimates.

Information about material estimates, assessments and assumptions applied where a change will significantly impact the consolidated financial statements is included in the following notes:

2.1 Revenue
3.1 Intangible assets
3.2 Impairment test
3.9 Business combinations

**Principles of consolidation**
The consolidated financial statements comprise Ambu A/S and companies in which Ambu A/S has a controlling interest. Control is deemed to be obtained if Ambu A/S owns more than 50% of the voting rights, or if Ambu A/S in any other way has a controlling interest in the company.

The subsidiaries' financial statements are adjusted if necessary to ensure that their accounting policies are consistent with those of the rest of the group. All intercompany transactions, balances, income and expenses are fully eliminated on consolidation.

# Basis of preparation of consolidated financial statements

Notes on the consolidated financial statements – Section 1

## 1.1 Basis of preparation (continued)

**Foreign currency translation**

A functional currency is determined for each company in the Ambu group. The functional currency is the currency used in the primary economic environment in which the individual subsidiary operates.

Transactions in foreign currencies are translated to the functional currency using the exchange rate applicable at the transaction date. Foreign exchange gains and losses in connection with the settlement of these transactions and the translation of monetary assets and liabilities in foreign currencies at the exchange rates applicable at the balance sheet date are recognised in the income statement under net financials.

Receivables, payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rate applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and the exchange rate applicable at the date on which the receivable or payable occurred or the exchange rate stated in the most recent annual report is recognised in the income statement under net financials.

The financial statements of foreign subsidiaries are translated to Danish kroner at the exchange rates for balance sheet items applicable at the balance sheet date and at average exchange rates as far as income statement items are concerned. Exchange rate differences arising from the translation of the net assets of such subsidiaries at the beginning of the year using the exchange rates applicable at the balance sheet date and the translation of income statement items from the exchange rates applicable at the transaction date to the exchange rates applicable at the balance sheet date are recognised in other comprehensive income and presented as a separate reserve for foreign currency translation adjustments under equity.

Foreign currency translation adjustment of intercompany balances which are regarded as a supplement to the net investment in foreign subsidiaries is recognised in the consolidated financial statements in other comprehensive income under a separate reserve for foreign currency translation adjustments.

**New accounting regulation**

Ambu has adopted all relevant new and updated accounting standards issued by the IASB effective as of 1 October 2017. The adoption of these standards has not had any material financial effect on the statement of Ambu's results, assets and liabilities or equity in connection with the preparation of the financial statements for the financial years presented.

**Standards adopted early**

The group decided to adopt IFRS 9, 'Financial Instruments', fully in FY 2016/17.

**Standards not yet adopted**

Other relevant standards and interpretations adopted by the IASB, but not yet in force in the EU, have not been incorporated into this annual report. These standards and interpretations are expected to be adopted when they become mandatory.

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014 and amended in April 2016. It will enter into force for financial years starting on 1 January 2018 and will thus apply as from Ambu's FY 2018/19. The management has analysed the impact of the new standard and found that the clarification of the principal/agent relationship in IFRS 15 will affect the possibility of including fees for GPOs in revenue. Consequently, the management expects the implementation of IFRS 15 to result in revenue being increased by around DKK 35m and promotion expenses by a similar amount, which will leave the operating profit (EBIT) unaffected. Similarly, organic growth is unaffected. The standard is expected to be implemented using the catch-up method without restatement of comparative figures.

IFRS 16 'Leases' was issued in January 2016 and enters into force on 1 January 2019. The standard regulates the accounting treatment of leases. The management expects the interest-bearing debt to be increased by an amount roughly corresponding to the discounted value of the contractual debt at the date of entry into force. Operating leases as at 30 September 2018 are shown in note 5.3. At the current interest rate levels, the effect on operating profit (EBIT) is expected to be insignificant.

**Presentation of income statement**

Income and expenses are recognised according to the accruals concept. The income statement is presented by functions where the respective cost impacts the function to which the cost is deemed to relate. The group's functions are divided into production, sales and distribution, development, as well as management and administration.

## 1.1 Basis of preparation (continued)

*Production costs*
Production costs comprise costs incurred in generating the revenue for the year. Production costs include direct and indirect costs for raw materials and consumables, freight costs incurred in connection with the purchase of commodities etc., production wages and salaries for support functions and factory management, rent and leases as well as depreciation and impairment of plant.

*Selling and distribution costs*
Selling and distribution costs comprise costs for sales staff, advertising and exhibitions, depreciation, impairment and operation of central warehouses, as well as all costs relating to the transport of goods from the group's factories to the customers. In addition, amortisation of the identified intangible assets acquired by the company is recognised: customer relations and trademarks.

*Development costs*
Development costs comprise salaries and costs which, directly or indirectly, can be attributed to product improvements and the development of new products which do not meet the criteria for capitalisation of an internally generated development project. In addition, the amortisation and impairment of capitalised development costs as well as amortisation of rights and acquired technologies are recognised.

*Management and administrative expenses*

Administrative expenses comprise expenses incurred for management and administration, including expenses for the administrative staff, office premises and office expenses, as well as amortisation and impairment.

**Presentation of balance sheet**

*Prepayments*
Prepayments recognised under assets comprise costs incurred in respect of the coming financial year measured at cost.

*Equity*
Reserve for foreign currency translation adjustments in the consolidated financial statements comprises exchange rate differences arising from the translation of the financial statements of foreign subsidiaries to DKK as well as foreign currency translation adjustments of intercompany balances regarded as a supplement to the net investment in foreign subsidiaries.

*Business combinations*
Newly acquired enterprises are included in the consolidated financial statements as from the date of acquisition. Comparative figures are not restated for newly acquired enterprises. In connection with the acquisition of new enterprises in which Ambu obtains a controlling influence, the purchase method is applied. The identifiable assets, liabilities and contingent liabilities of the acquired enterprises are measured at fair value at the date of acquisition. Identifiable intangible assets are recognised, provided that such assets can be recognised separately or originate from a contractual right and the fair value can be measured reliably. Deferred tax on the revaluations made is recognised. The date of acquisition is the date when Ambu obtains actual control over the acquired enterprise.

For business combinations, the positive balances (goodwill) between the cost of the enterprise and the fair value of the acquired identifiable assets, liabilities and contingent liabilities are recognised as goodwill under intangible assets. The cost of the enterprise is made up of the fair value of the agreed consideration, including any contingent consideration. Goodwill is not amortised, but is subject to an annual impairment test. The first impairment test is carried out by the end of the year of acquisition. Upon acquisition, goodwill is attributed to the cash-generating units, which will subsequently form the basis of an impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with another functional currency than DKK are treated as assets and liabilities of the foreign entity and are translated to the functional currency of such entity using the exchange rate applicable at the transaction date. Transaction costs incurred in connection with business combinations are expensed.

**Cash flow statement**
The cash flow statement has been prepared on the basis of the indirect method and shows the group's cash flows from operating, investing and financing activities for the year. Cash flows from operating activities comprise operating profit (EBIT) adjusted for non-cash operating items, changes in net working capital, net financials received and paid and income tax paid. Cash flows from investing activities comprise payments made in connection with the acquisition and disposal of enterprises and activities, as well as investment, development, sale and improvements of intangible assets and property, plant and equipment.

The conclusion of finance leases is considered to be non-cash transactions. Cash flows relating to assets held under finance leases are recognised as payment of interest and repayment of debt. Cash flows from financing activities comprise changes to the size or composition of share capital and costs incidental thereto as well as the arrangement of loans, the repayment of interest-bearing debt, the purchase and sale of treasury shares and the payment of dividend to the group's shareholders.

Cash flows denominated in currencies other than Danish kroner (DKK) are translated using average exchange rates, unless such rates deviate materially from the exchange rates applicable at the transaction date.

Cash and cash equivalents comprise cash less short-term bank debt, alternating between positive and negative balances.

# Section 2:
# Net profit for the year

This section contains notes relating to the net profit for the year from the group's activities.

In 2017/18, Ambu improved its EBIT margin by 2.5 percentage points to 21.6%, corresponding to an increase of DKK 113m.

This year's absolute EBIT increase of 25% to DKK 563m is primarily attributable to reported growth of 11% and a 2.9 percentage point improvement of the gross margin less a minor 1 percentage point increase in total capacity costs relative to revenue. Note 2.2 explains the 18% increase in the group's staff costs for sales and distribution.

Net financials were negative at DKK -98m, negatively impacted by non-cash fair value adjustments of deferred contingent payments relating to the acquisition of Invendo Medical GmbH. The group's outstanding corporate bonds issued in 2013 were redeemed in March 2018, entailing the conversion of debt to debt to credit institutions, which has reduced the effective interest rate by approx. 2 percentage points. Read more in section 4.

The effective tax rate was up 4.1 percentage points as a result of the tax reform in the USA, where the federal income tax rate was reduced to 21%. The reduction has resulted in a non-recurring expense of DKK 19m due to the reduction in the recognised tax asset from the USA.

Profit for the year was DKK 337m, corresponding to a profit margin of 13% (13%), which is negatively affected by financial items of DKK 56m after tax relating to Invendo Medical GmbH and DKK 19m due to the tax rate reduction in the USA.

| Organic growth | Gross margin | Rate of cost |
|---|---|---|
| +15% | 59.4% | 38% |
| DKK 2,606m | +2.9 %-points | +1 %-point |

| EBITDA | EBIT | Net financials |
|---|---|---|
| +DKK 123m | DKK 563m | DKK -98m |
| +22% | +25% | +72% |

| Effective tax rate | Profit for the year |
|---|---|
| 27.5% | DKK 337m |
| +4.1 %-points | +12% |

DKKm

## 2.1 Revenue

| | 2017/18 | 2016/17 |
|---|---|---|
| *Revenue by activities:* | | |
| Anaesthesia | 926 | 923 |
| Visualisation | 836 | 597 |
| Patient Monitoring & Diagnostics | 844 | 835 |
| **Total revenue** | **2,606** | **2,355** |
| *Revenue by markets:* | | |
| Europe[1] | 1,095 | 962 |
| North America[2] | 1,208 | 1,106 |
| Rest of the world | 303 | 287 |
| **Total revenue** | **2,606** | **2,355** |

[1]Denmark is included in Europe by DKK 51m (2016/17: DKK 50m).

[2]North America essentially covers sales to customers in the USA.

**§ Accounting policies**

Revenue from the sale of goods is recognised in the income statement, provided that delivery and passing of risk to the buyer have taken place before the end of the year, and provided that the income can be measured reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration, exclusive of VAT and taxes collected on behalf of a third party. At the time of recognition of income, a number of price adjustments are also estimated. These are recognised as a reduction of gross revenue to revenue.

Based on IFRS 8 'Operating Segments' and the internal reporting to the management in their assessment of the group's results, financial position and allocation of resources, an operating segment has been identified which is concerned with the development, production and sale of medico products. This reflects the management's approach to the allocation of resources and the management of the organisation. Revenue by markets is distributed based on the purchasing country.

**! Material accounting estimates**

*Price adjustments*

Price adjustments are offset against trade receivables and primarily concern sales in the USA. Price adjustments in the US market are subject to estimation uncertainty as the actual price adjustment is not determined until the distributor's sale to the end-customer (hospitals, clinics etc.). Price adjustments are the difference between the price agreed with the end-customer and the distributor's list price. Price adjustments are calculated on the basis of a combination of previous experience and sales data from distributors. Price adjustments in the amount of DKK 42m (2017: DKK 48m) were recognised.

DKKm

## 2.2 Staff costs

The staff costs of the group are distributed onto the respective functions as follows:

| | 2017/18 | 2016/17 |
|---|---|---|
| Production costs | 237 | 238 |
| Selling and distribution costs | 335 | 284 |
| Development costs | 23 | 10 |
| Management and administration | 144 | 124 |
| **Total staff expenses** | **739** | **656** |
| Staff costs included in property, plant and equipment | 6 | 1 |
| Staff costs included in intangible assets | 53 | 33 |
| **Total staff costs** | **798** | **690** |

Staff costs are distributed between the Executive Board, the Board of Directors and other employees as follows:

| | 2017/18 | 2016/17 |
|---|---|---|
| Remuneration, Executive Board | 14 | 15 |
| Share-based payment | 12 | 2 |
| **Staff costs, Executive Board** | **26** | **17** |
| Wages and salaries | 676 | 601 |
| Pension contributions | 19 | 13 |
| Social security costs | 58 | 46 |
| Share-based payment | 9 | 7 |
| Share-based payment, employee shares | 5 | 2 |
| Remuneration, committees | 1 | 1 |
| Remuneration, Board of Directors | 4 | 3 |
| **Total staff costs** | **798** | **690** |
| Average number of employees | 2,712 | 2,503 |
| Number of full-time employees at the end of the year | 2,795 | 2,607 |

Remuneration paid to the Executive Board and the Board of Directors totalled DKK 31m (2016/17: DKK 21m).

**§ Accounting policies**
Staff costs comprise remuneration, wages and salaries, pension contributions etc. and share-based payment to the company's employees. The group has no defined benefit plans.

DKKm

## 2.3 Depreciation, amortisation and impairment losses on non-current assets

| | 2017/18 | 2016/17 |
|---|---|---|
| Amortisation of intangible assets identified in connection with business combinations | 18 | 25 |
| Amortisation of intangible development projects and rights | 48 | 35 |
| Depreciation of property, plant and equipment | 48 | 44 |
| Impairment losses on property, plant and equipment | 1 | 1 |
| **Total depreciation, amortisation and impairment losses** | **115** | **105** |

Depreciation, amortisation and impairment losses have been allocated to the following functions:

| | 2017/18 | 2016/17 |
|---|---|---|
| Production costs | 32 | 30 |
| Selling and distribution costs | 3 | 7 |
| Development costs | 66 | 53 |
| Management and administration | 14 | 15 |
| **Total depreciation, amortisation and impairment losses** | **115** | **105** |

**§ Accounting policies**
For a description of accounting policies, reference is made to notes 3.1, 3.2 and 3.3.

## 2.4 Development costs

| | 2017/18 | 2016/17 |
|---|---|---|
| **EBIT impact for development costs** | **111** | **76** |
| ÷ Amortisation of assets recognised in connection with business combination | -16 | -19 |
| ÷ Amortisation of development projects, rights and other non-current assets | -50 | -34 |
| **EBITDA impact for development costs** | **45** | **23** |
| + Investments in development projects | 104 | 74 |
| + Investments in rights | 1 | 1 |
| **Investments** | **105** | **75** |
| **Liquid development costs for the year** | **150** | **98** |
| Fraction for development costs in the income statement relative to liquid development costs | 0.7 | 0.8 |

## 2.5 Other operating expenses

| | 2017/18 | 2016/17 |
|---|---|---|
| Integration costs, ETView | 0 | 10 |
| **Total other operating expenses** | **0** | **10** |

**§ Accounting policies**
Other operating expenses comprise items of a secondary nature to the company's activities.

DKKm

## 2.6 Financial risks from operating activities

*Foreign currency risks*
The largest part of Ambu's revenue, production costs and capacity costs is invoiced and paid in foreign currencies, and all assets and liabilities in the subsidiaries' balance sheets are denominated in foreign currency. As a consequence, fluctuations in these exchange rates against DKK might impact Ambu's financial position and results. The most important exchange rates are USD, MYR, CNY and GBP (collectively referred to as 'main currencies').

*Sensitivity analysis*
The following table shows the impact on the group in the event of a 10% fluctuation in the main currencies relative to the recognised financial instruments. The development of 10% constitutes the management's assessment of a realistic exchange rate development within the main currencies. The financial instruments comprised by the sensitivity analysis include trade receivables, cash, payables, trade payables and forward exchange contracts.

| | Decrease of 10% in main currencies | | Increase of 10% in main currencies | |
|---|---|---|---|---|
| | **2017/18** | **2016/17** | **2017/18** | **2016/17** |
| Income statement | -50 | -19 | 50 | 19 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| | **-50** | **-19** | **50** | **19** |

*Hedging of expected future transactions*
Interest rate swaps have been entered into to hedge the group's partial debt to credit institutions, converting floating-rate debt into fixed-rate debt.

| | Contract value | | Fair value | |
|---|---|---|---|---|
| **Fair value of financial instruments** | **2017/18** | **2016/17** | **2017/18** | **2016/17** |
| *Commodity hedging:* | | | | |
| Silver price hedging | 0 | 15 | 0 | -2 |
| *Currency swaps:* | | | | |
| Currency swap, USD 40m, floating to fixed rate, maturity 15 March 2018 | 0 | 252 | 0 | -21 |
| *Interest rate swaps:* | | | | |
| Interest rate swap, DKK 500m, floating to fixed rate, maturity 1 March 2022 | 500 | 500 | -7 | -6 |
| **Total financial liabilities** | **500** | **767** | **-7** | **-29** |

DKKm

## 2.7 Income taxes

Ambu develops, manufactures and sells devices to hospitals and rescue services all over the world through its own companies or in collaboration with third parties. This naturally leads to cross-border transactions. In order to counter the inherent tax risk associated with being a multinational company, Ambu follows the OECD's transfer pricing principles and general guidelines. Even though Ambu operates in OECD member countries, a tax risk still exists given the fact that applicable principles and guidelines are, to some extent, subject to interpretation by the member countries and that applicable case law is not always clear and changes over time.

*Tax risks*
To counter any future tax disputes and disagreements with the authorities, the management makes estimates and assessments of the group's tax exposure and, on the basis thereof, makes a provision for uncertain tax positions. Even though the management considers this provision to be sufficient, future liabilities may deviate therefrom.

| | 2017/18 | 2016/17 |
|---|---|---|
| *Tax for the year comprises:* | | |
| Current tax on profit for the year | 102 | 78 |
| Deferred tax on profit for the year | 6 | 16 |
| Adjustment, change in tax rates | 19 | 0 |
| Adjustment, previous years | 1 | -2 |
| **Tax on profit for the year** | **128** | **92** |
| Tax on other comprehensive income and entries on equity for the year | -73 | -84 |
| **Total income taxes for the year** | **55** | **8** |

| | 2017/18 | 2016/17 |
|---|---|---|
| *Tax on profit for the year comprises (%):* | | |
| Calculated 22.0% (2016/17: 22.0%) tax on profit for the year | 22.0 | 22.0 |
| Effect of tax rate in foreign subsidiaries | 1.5 | -0.1 |
| Income not subject to tax | -0.1 | -0.9 |
| Non-deductible costs | 1.9 | 1.7 |
| Adjustment, change in tax rates | 4.4 | 0.1 |
| Value adjustment of contingent consideration | 0.2 | -0.1 |
| Tax adjustment in respect of previous years | 0.1 | -0.8 |
| Utilisation of tax assets not previously recognised | -9.7 | -0.6 |
| Impairment of tax asset | 7.2 | 2.1 |
| **Effective tax rate** | **27.5** | **23.4** |

**§ Accounting policies**
The tax for the year, which consists of current tax and changes in deferred tax, is recognised in the income statement with the portion attributable to the profit for the year, and in equity with the portion attributable to amounts recognised directly in other comprehensive income. The tax effect of share-based payment is included in tax on profit for the year with the portion attributable to the group's deductible share of the Black-Scholes cost, and the remaining tax effect being included in equity. Tax is provided on the basis of the tax rules and tax rates applicable in the individual countries.

DKKm

## 2.8 Deferred tax

| | 30.09.18 | 30.09.17 |
|---|---|---|
| Deferred tax, beginning of year | -96 | -56 |
| Additions on acquisition | 20 | 0 |
| Translation adjustment | -2 | 1 |
| Deferred tax on share-based payment recognised in equity | -59 | -53 |
| Deferred tax for the year recognised in the income statement | 6 | 16 |
| Adjustment, change in tax rates | 19 | 0 |
| Change in respect of previous years | -2 | -4 |
| **Deferred tax at end of year** | **-114** | **-96** |
| | | |
| *Deferred tax relates to:* | | |
| Intangible assets | 251 | 97 |
| Property, plant and equipment | 7 | 18 |
| Current assets | -24 | -9 |
| Deferred tax on share-based payment recognised in equity | -109 | -127 |
| Provisions | -2 | 0 |
| Contingent consideration | -26 | 0 |
| Payables | -5 | -5 |
| Tax loss carry-forwards | -206 | -70 |
| | **-114** | **-96** |
| | | |
| *Classified in the balance sheet as follows:* | | |
| Deferred tax asset | -154 | -98 |
| Deferred tax | 40 | 2 |
| | **-114** | **-96** |
| Deferred tax falling due within 12 months | -31 | -43 |

*Tax losses in the group*
At the date of acquisition of Invendo Medical GmbH, a deferred tax asset of DKK 20m net was recognised, consisting of a deferred tax liability from net assets revalued to fair value in the amount of DKK 186m, tax assets from tax loss carry-forwards of DKK 144m and deferred deductible differences on parts of the purchase price calculated at DKK 22m.Tax losses in Germany were utilised at the end of 2017/18 in connection with an intercompany transfer of acquired technologies.

As shown in the table below, tax loss carry-forwards of DKK 206m were recognised in 2017/18 (2017: DKK 70m). The tax loss carry-forwards are recognised on the basis of budgets and strategy plans for the individual activities approved by the management. Estimates and assessments of future taxable income are thus consistent with the basis for the impairment tests and the measurement of contingent consideration carried out.

| | 30.09.18 | 30.09.17 |
|---|---|---|
| *Recognised tax loss carry-forwards, by jurisdiction:* | | |
| Denmark | 145 | 0 |
| USA | 61 | 70 |
| | **206** | **70** |

*Unrecognised temporary differences*
All temporary deductible differences in the USA are recognised in the group's tax position (2017: Unrecognised differences amounted to DKK 55m). In Germany, unrecognised temporary deductible differences amounted to DKK 21m (2017: DKK 0m).

## 2.8 Deferred tax (continued)

**§ Accounting policies**
Deferred tax is measured under the balance-sheet liability method on the basis of all temporary differences between the carrying amount and tax base of assets and liabilities. Deferred tax is not recognised on temporary differences resulting from the initial recognition of goodwill. Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised under other non-current assets at the expected usable value, either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity.

Adjustment is made of deferred tax in relation to eliminations made as regards unrealised intercompany profits and losses.

The value of deductible temporary differences is recognised to the extent that the management, on the basis of budgets, business plans etc., is able to render probable that the value can be offset against temporary deferred tax liabilities or against future taxable income. Tax losses are recognised to the extent that the management can render probable that these can be offset against future taxable income.

Deferred tax is calculated on share-based payments to the extent that the individual scheme is deductible for the group. Deferred tax is calculated as the difference between the value of the share-based payment at the time of allocation and the fair value, whichever is higher. Deferred tax assets from share-based payment schemes are recognised proportionately over the vesting period. The tax asset is recognised in the income statement at a value corresponding to the tax deduction for the scheme-related costs recognised in the income statement. Any additional values are recognised directly in equity.

Deferred tax is measured on the basis of the taxation rules and tax rates which, pursuant to the legislation in force at the balance sheet date, will apply in the individual countries at the time when the deferred tax is expected to become payable as current tax. Changes in deferred tax resulting from changes in tax rates are recognised in the income statement.

# Section 3:
# Invested capital and net working capital

This section provides explanatory notes concerning Ambu's total investments of DKK 1,161m (DKK 141m) for the year, including development projects, production capacity and the acquisition of Invendo. The section also contains notes describing the company's net working capital of DKK 535m (DKK 457m) at the end of the financial year.

Together with other components, the total investments and the net working capital are included in the average invested capital available to the management – in 2017/18 DKK 2,587m (DKK 1,996m).

***Invested capital***
At the end of Q4 2017/18, the invested capital totalled DKK 3,127m (2017: DKK 2,046m).

The increase is primarily driven by investments in Invendo less the deferred contingent earn-out and milestone payments as well as increased investments in own development projects and the expansion of production facilities in Malaysia to the order of DKK 48m (DKK 40m).

Investments in production capacity towards 2020 are expected to be modest.

| **Invested capital** | **%** | **30.09.2018** | **%** | **30.09.2017** |
|---|---|---|---|---|
| Intangible assets | 84 | 2,640 | 59 | 1,215 |
| Property, plant and equipment | 15 | 455 | 18 | 367 |
| Other non-current assets | 5 | 154 | 5 | 102 |
| Current assets excl. cash | 29 | 922 | 39 | 797 |
| Liabilities excluding interest-bearing debt | -33 | -1,044 | -21 | -435 |
| | **100** | **3,127** | **100** | **2,046** |
| Average invested capital | | **2,587** | | **1,996** |

***Net working capital***
Ambu is working continuously to optimise the level of inventories through production planning and the reduction of buffer stocks; however, at all times without ever compromising on the reliability of delivery of critical components, mainly in Malaysia. At the end of September 2018, inventories of raw materials had thus increased by DKK 39m compared to last year.

The physical location of our factories in Asia entails transport times of up to eight weeks from the factories to the regional warehouses in Europe and the USA. A significant proportion of inventories is therefore in transit at any one time and thus not available for sale.

Trade receivables increased by 9% from DKK 437m to DKK 478m, despite a reported growth in sales of 11% for the year.

Trade credits obtained in connection with the purchase of goods and services and other payables increased by 11% in total.

| **Net working capital** | **%** | **30.09.2018** | **%** | **30.09.2017** |
|---|---|---|---|---|
| Inventories | 15 | 382 | 13 | 313 |
| Trade receivables | 18 | 478 | 19 | 437 |
| Other operating assets | 2 | 55 | 2 | 49 |
| Trade payables | -7 | -194 | -7 | -160 |
| Other payables | -7 | -186 | -8 | -182 |
| | **21** | **535** | **19** | **457** |

Average invested capital

**DKK 2,587m**

DKK 1,996m

Total investments for the year

**DKK 1,161m**

723%

Net working capital, % of revenue

**21%**

+2 %-points

DKKm

## 3.1 Intangible assets

| 2017/18 | Acquired technologies, trademarks and cust. relations | Acquired technologies in progress | Completed development projects | Rights | Goodwill | Development projects in progress | Total |
|---|---|---|---|---|---|---|---|
| Acquisition price, primo | 253 | 0 | 357 | 129 | 781 | 45 | 1,565 |
| Translation adjustment | 3 | 1 | 1 | 0 | 13 | 0 | 18 |
| Additions during the year | 0 | 0 | 0 | 0 | 0 | 104 | 104 |
| Additions in connection with business combinations | 0 | 660 | 0 | 0 | 711 | 0 | 1,371 |
| Disposals during the year | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transferred during the year | 0 | 0 | 18 | 0 | 0 | -18 | 0 |
| **Acquisition price, ultimo** | **256** | **661** | **376** | **129** | **1,505** | **131** | **3,058** |
| | | | | | | | |
| Amortisation, primo | 90 | 0 | 210 | 50 | 0 | 0 | 350 |
| Translation adjustment | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Disposals during the year | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortisation for the year | 18 | 0 | 36 | 12 | 0 | 0 | 66 |
| **Amortisation, ultimo** | **110** | **0** | **246** | **62** | **0** | **0** | **418** |
| **Carrying amount, ultimo** | **146** | **661** | **130** | **67** | **1,505** | **131** | **2,640** |

| 2016/17 | Acquired technologies, trademarks and cust. relations | Acquired technologies in progress | Completed development projects | Rights | Goodwill | Development projects in progress | Total |
|---|---|---|---|---|---|---|---|
| Acquisition price, primo | 255 | 0 | 289 | 129 | 819 | 41 | 1,533 |
| Translation adjustment | -2 | 0 | -2 | 0 | -38 | -1 | -43 |
| Additions during the year | 0 | 0 | 0 | 0 | 0 | 74 | 74 |
| Additions in connection with business combinations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals during the year | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transferred during the year | 0 | 0 | 70 | 0 | 0 | -69 | 1 |
| **Acquisition price, ultimo** | **253** | **0** | **357** | **129** | **781** | **45** | **1,565** |
| | | | | | | | |
| Amortisation, primo | 70 | 0 | 188 | 37 | 0 | 0 | 295 |
| Translation adjustment | -5 | 0 | 0 | 0 | 0 | 0 | -5 |
| Disposals during the year | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortisation for the year | 25 | 0 | 22 | 13 | 0 | 0 | 60 |
| **Amortisation, ultimo** | **90** | **0** | **210** | **50** | **0** | **0** | **350** |
| **Carrying amount, ultimo** | **163** | **0** | **147** | **79** | **781** | **45** | **1,215** |

## 3.1 Intangible assets (continued)

**§ Accounting policies**
On initial recognition, goodwill is recognised at cost in the balance sheet as described under 'Business combinations'. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

At the time of acquisition, goodwill is attributed to the cash-generating units which are expected to benefit from the business combination; however, not to a lower level than the lower of segment level and the level on which goodwill is monitored as part of the internal financial management. The management has identified an operating segment to which goodwill is allocated.

Acquired technologies, trademarks and customer relations primarily comprise identified technologies. Acquired technologies in progress are recognised in connection with the acquisition of Invendo. Acquired technologies in progress are amortised individually from the time the management finds that the technology is fit for use.

Development projects that are clearly defined and identifiable and where the technical utilisation degree, sufficient resources and a potential future market or scope for use in the company can be proven, and where the company intends to produce, market or use the project, are recognised as intangible assets where the cost of the project can be calculated reliably and there is sufficient certainty that the future earnings or the net selling price can cover the production costs, selling and distribution costs as well as management and administrative expenses. Other development costs are recognised in the income statement as incurred.

Recognised development costs are measured at cost less accumulated amortisation and impairment losses. Cost comprises salaries and other external expenses, e.g. consultancy fees and travel expenses, which are directly attributable to the group's development activities.

Upon completion of the development activity, development projects are amortised according to the straight-line method over the estimated useful life as from the time when the asset is ready for use. The basis of amortisation is reduced by impairment losses, if any. The useful life of the asset may subsequently be changed if the management believes that the original assumptions on which the useful life and any residual value are based have changed significantly.

Rights in the form of distribution rights and licences etc. are measured at cost less accumulated amortisation and impairment losses. Rights are amortised according to the straight-line method over the shorter of the remaining term of the agreement and the useful lives of the assets.

Other intangible assets, including intangible assets acquired in connection with business combinations, are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised according to the straight-line method over the expected useful lives of the assets.

Intangible assets are amortised according to the straight-line method over the expected useful lives of the assets/components as follows:

| | |
|---|---|
| Acquired technologies, trademarks and customer relations | 5-15 years |
| Completed development projects | 5-10 years |
| Rights | 5-20 years |

Goodwill is not amortised.

**! Material accounting estimates**
*Calculation of the fair value of acquired intangible assets identified in connection with business combinations*
When applying the purchase method in connection with business combinations, the management makes material estimates and assessments in its valuation of the acquired intangible assets. Please refer to note 3.9 Business combinations for a detailed description of the estimates and assessments made during the year.

All identified intangible assets have finite useful lives and will therefore affect the operating profit (EBIT) negatively until the fair value, calculated at the date of the acquisition of the company, is fully amortised.

## 3.2 Impairment test

*Goodwill*
The Ambu group is managed as one single unit, for which reason the management monitors goodwill as a whole. Consequently, the impairment test is based on the Ambu group's total cash flows. The market value of Ambu A/S's shares based on the traded price for the shares on Nasdaq Copenhagen is far higher than the accounting equity. Therefore, the management has concluded that the net selling price calculated on the basis of a level 1 fair value measurement proves that there is no indication of impairment of goodwill.

*Development projects and acquired technologies in progress*
Development projects in progress are tested for impairment on an ongoing basis. For completed development projects, it is continuously assessed whether there is any indication of impairment. If the management finds that there is an indication of impairment, an impairment test is carried out, comparing the estimated future net cash flows with the carrying amount of the asset.
The impairment tests made have not resulted in any indication of impairment.

**§ Accounting policies**
The carrying amount of goodwill is tested for impairment together with the other non-current assets of the cash-generating unit to which goodwill has been allocated and is impaired to the recoverable amount in the income statement if the carrying amount is higher. Impairment of goodwill is recognised as a separate item in the income statement.

Goodwill is tested annually for impairment, the first time being by the end of the year of acquisition. Development projects in progress are also subject to an annual impairment test.

The carrying amount of other non-current assets is assessed on an annual basis to establish whether there is any indication of impairment. When such indication exists, the recoverable amount of the asset is calculated. The recoverable amount is the higher of the fair value of the asset less expected selling costs and the value in use. The value in use is calculated as the present value of expected future cash flows from the asset or the cash-generating unit in which the asset is included.

An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit. Impairment losses are recognised in the income statement under production costs, selling and distribution costs, development costs or management and administrative expenses, as appropriate.

Impairment of goodwill is not reversed. Impairment of other assets is reversed in so far as the assumptions and estimates on the basis of which the impairment is made have been changed. Impairments are only reversed in so far as the new carrying amount of the asset does not exceed the carrying amount of the asset after amortisation, had the asset not been impaired.

**! Material accounting estimates**
*Indication of impairment of acquired intangible assets in connection with business combinations as well as subsequent impairment test hereof*
The management performs an annual assessment of whether internal or external indications of impairment of the identified intangible assets exist. If there is any indication of impairment, an impairment test is carried out.

In an impairment test, significant estimates and assessments are made of future events which may have a significant impact on the group's operating profit (EBIT) and financial position if the planned events deviate from the management's best estimate.

DKKm

## 3.3 Property, plant and equipment

| 2017/18 | Land and buildings | Plant and machinery | Other plant, fixtures and fittings, tools and equipment | Prepay-ments and plant under construction | Total |
|---|---|---|---|---|---|
| Acquisition price, beginning of year | 240 | 303 | 115 | 62 | 720 |
| Translation adjustment | 2 | 3 | 1 | 4 | 10 |
| Additions during the year | 0 | 7 | 3 | 119 | 129 |
| Disposals during the year | -1 | -4 | -5 | 0 | -10 |
| Transferred during the year | 112 | 22 | 22 | -156 | 0 |
| **Acquisition price, end of year** | **353** | **331** | **136** | **29** | **849** |
| | | | | | |
| Depreciation and impairment losses, beginning of year | 57 | 217 | 79 | 0 | 353 |
| Translation adjustment | 1 | 1 | 0 | 0 | 2 |
| Disposals during the year | -1 | -4 | -5 | 0 | -10 |
| Impairment losses for the year | 0 | 1 | 0 | 0 | 1 |
| Depreciation for the year | 10 | 23 | 15 | 0 | 48 |
| **Depreciation and impairment losses at end of year** | **67** | **238** | **89** | **0** | **394** |
| **Carrying amount, end of year** | **286** | **93** | **47** | **29** | **455** |

There are no contractual obligations concerning the purchase of property, plant and equipment. The carrying amount of assets held under finance leases is DKK 113m (2016/17: DKK 89m), primarily recognised under land and buildings.

| 2016/17 | Land and buildings | Plant and machinery | Other plant, fixtures and fittings, tools and equipment | Prepay-ments and plant under construction | Total |
|---|---|---|---|---|---|
| Acquisition price, beginning of year | 238 | 308 | 113 | 23 | 682 |
| Translation adjustment | -9 | -16 | -2 | -3 | -30 |
| Additions during the year | 89 | 4 | 3 | 78 | 174 |
| Disposals during the year | -81 | -5 | -19 | 0 | -105 |
| Transferred during the year | 3 | 12 | 20 | -36 | -1 |
| **Acquisition price, end of year** | **240** | **303** | **115** | **62** | **720** |
| | | | | | |
| Depreciation and impairment losses, beginning of year | 116 | 209 | 86 | 0 | 411 |
| Translation adjustment | -4 | -10 | -1 | 0 | -15 |
| Disposals during the year | -64 | -5 | -18 | 0 | -87 |
| Impairment losses for the year | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the year | 9 | 23 | 12 | 0 | 44 |
| **Depreciation and impairment losses at end of year** | **57** | **217** | **79** | **0** | **353** |
| **Carrying amount, end of year** | **183** | **86** | **36** | **62** | **367** |

DKKm

## 3.3 Property, plant and equipment (continued)

**§ Accounting policies**
Land and buildings, plant and machinery and other plant, fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price and any costs directly attributable to the acquisition until the date when the asset is ready for use. The cost of a total asset is divided into separate elements which are depreciated individually when the useful lives of the individual elements differ.

For assets held under finance leases, cost is calculated at the lower of the fair value of the assets and the present value of the future minimum lease payments. For calculating the present value, the internal rate of interest of the lease is used as the discount rate or an approximation of this value.

Property, plant and equipment are depreciated according to the straight-line method over the expected useful lives of the assets/components as follows:

| | |
|---|---|
| Buildings | 10-40 years |
| Building installations | 10 years |
| Plant and machinery | 2-10 years |
| Other plant, fixtures and fittings, tools and equipment | 3-5 years |

Land is not depreciated.

The basis of depreciation is calculated in consideration of the residual value of the asset and is reduced by impairment, if any. The residual value is fixed at the date of acquisition and is subject to annual review. When the residual value exceeds the carrying amount of the asset, depreciation will no longer take place.

In connection with changes in the depreciation period or the residual value, the effect of depreciation is recognised in future as a change in the accounting estimate.

Depreciation is recognised in the income statement under production costs, selling and distribution costs, development costs or management and administrative expenses, as appropriate. Reference is made to note 2.3.

## 3.4 Inventories

| | **30.09.18** | **30.09.17** |
|---|---|---|
| Raw materials and consumables | 122 | 83 |
| Finished goods | 260 | 230 |
| | **382** | **313** |
| Cost of sales for the year | 849 | 820 |
| Write-down of inventories included in production costs for the year | 3 | 5 |

**§ Accounting policies**
Inventories are measured at the lower of cost calculated according to the FIFO principle and net realisable value. The net realisable value is calculated as the selling price less costs of completion and costs necessary to make the sale.

The cost of goods for resale as well as raw materials and consumables comprises the acquisition price plus delivery costs.

The cost of manufactured goods and work in progress comprises the cost of raw materials, consumables, direct labour costs and production overheads in the form of logistics and planning costs, production management as well as expenses for production facilities and equipment etc.

DKKm

## 3.5 Trade receivables

| | 30.09.18 | 30.09.17 |
|---|---|---|
| Not due | 376 | 339 |
| 1-90 days | 75 | 79 |
| 91-180 days | 12 | 6 |
| > 180 days | 15 | 13 |
| **Trade receivables** | **478** | **437** |
| *At end of year, trade receivables were written down by:* | | |
| Not due | -1 | -2 |
| 1-90 days | 0 | -2 |
| 91-180 days | 0 | -3 |
| > 180 days | -8 | -5 |
| **Provision for bad debts** | **-9** | **-12** |

*Credit risks*
Ambu monitors trade receivables on a daily basis by means of due date reports, changes in payment pattern trends as well as ordinary follow-up routines to identify any indications that the initial expectations for losses on the individual receivables should be adjusted. The Ambu group does not use factoring in connection with the collection of debts.

A share of the trade receivables is overdue by more than three months. Reference is made to the detailed description of credit risks in note 4.1 where the management regards the risk of bad debts as being low.

**§ Accounting policies**
Under IFRS 9, trade receivables must be measured at amortised cost net of any write-down for expected impairment over the life of the claim. The loss is recognised at the time of the initial recognition of the claim and is subsequently assessed regularly on the basis of an expected credit loss model.

## 3.6 Adjustment of items with no cash flow effect

| | 2017/18 | 2016/17 |
|---|---|---|
| Depreciation, amortisation and impairment losses | 115 | 105 |
| Share-based payment | 26 | 11 |
| | **141** | **116** |

## 3.7 Changes in net working capital

| | 2017/18 | 2016/17 |
|---|---|---|
| Changes in inventories | -62 | -40 |
| Changes in receivables | -44 | -29 |
| Changes in trade payables etc. | 40 | 88 |
| | **-66** | **19** |

DKKm

### 3.8 Cash flows from financial liabilities classified as financing activities

| | 30.09.17 | Cash flows | Value adjust-ments[1] | 30.09.18 |
|---|---|---|---|---|
| Derivative financial instruments[2] | 29 | -12 | -10 | 7 |
| Corporate bonds | 700 | -701 | 1 | 0 |
| Credit institutions | 0 | 1,200 | 0 | 1,200 |
| Finance leases | 86 | 22 | 0 | 108 |
| | **815** | **509** | **-9** | **1,315** |

[1]Non-cash transactions.

[2]Only some of the balance under derivative financial instruments can potentially be realised as cash flows from financing activities.

DKKm

## 3.9 Business combinations

On 25 October 2017, Ambu acquired the entire share capital and voting rights in the German company Invendo Medical GmbH ('Invendo'). Before the purchase, Ambu had no ownership interest in the company. Transaction-related costs of DKK 6m have been paid, of which an amount of DKK 1m was recognised in Q1 2017/18 and an amount of DKK 5m was recognised in Q4 2016/17. All costs have been recognised in the income statement under management and administration.

At the acquisition date, Invendo had no fully developed product approved for sale which was actively being marketed. In spite of this, the management is of the opinion that Invendo was so close to the commercialisation of the acquired development projects in progress that Invendo must be regarded as a business in accordance with IFRS 3. Accordingly, the accounting rules on business combinations have been applied.

| | Fair value on acquisition presented in interim reports and in the annual report 2017/18 | | | | |
|---|---|---|---|---|---|
| **Invendo Medical GmbH** | **Preliminary fair value Q1** | **Change** | **Preliminary fair value Q2** | **Change** | **Final fair value Q4** |
| Acquired technologies in progress | 683 | -23 | 660 | | 660 |
| Plant and machinery | 9 | -9 | 0 | | 0 |
| Inventories | 0 | 3 | 3 | | 3 |
| Other receivables | 7 | -6 | 1 | | 1 |
| Cash | 9 | | 9 | | 9 |
| Deferred tax | -194 | 174 | -20 | | -20 |
| Payables | -3 | | -3 | | -3 |
| **Fair value of net assets acquired** | **511** | **139** | **650** | | **650** |
| Goodwill | 904 | -139 | 765 | -54 | 711 |
| **Consideration transferred** | **1,415** | | **1,415** | **-54** | **1,361** |
| Cash and cash equivalents in acquired businesses | -9 | | -9 | | -9 |
| **Cash consideration transferred** | **1,406** | | **1,406** | **-54** | **1,352** |
| Fair value of contingent and deferred consideration | -555 | | -555 | 54 | -501 |
| Subsequent milestone payment | 0 | | 0 | 75 | 75 |
| **Acquisition of businesses (cash flow)** | **851** | | **851** | **75** | **926** |

**Completion of fair value on acquisition**
In the interim financial statements published since the acquisition date, the fair value on acquisition of the assets and liabilities have been described as provisional, as the determination of the fair value on acquisition was still ongoing. As shown in the table above, since the publication of the initial fair value on acquisition in Q1 2017/18, the fair value on acquisition has been changed in Q2 and Q4. These changes are described below.

In Q2, the fair value on acquisition was changed for the first time based on the recognition of deferred tax assets of DKK 166m and minor adjustments to other assets. These changes were made based on greater insights into the underlying cash flows of the individual assets and liabilities. In Q4, the fair value of the contingent consideration was reassessed based on new information about circumstances applying on the acquisition date.

The fair value on acquisition is now final.

## 3.9 Business combinations (continued)

**Description of the acquired activities**
Invendo is a leading developer of sterile, single-use endoscopy products for gastroenterological procedures, which are comprised by Ambu's existing Visualisation business area. The management sees the acquisition as a good strategic match given Ambu's Big Five strategy and the group's long-term value creation. At the time of acquisition, Invendo had 35 employees.

The most important asset for which a fair value on acquisition has been identified are development projects in progress. The fair value of the individual development projects is measured using the relief-from-royalty model and is amortised over an expected useful life of 15 years as from the time when the development project is deemed to be ready for sale. Deferred tax on these development projects contributes DKK 192m to the fair value on acquisition.

The total net deferred tax of DKK 20m on the fair value on acquisition of Invendo consists of a deferred tax liability from net assets revalued to fair value by DKK 186m, tax assets from deductible tax losses of DKK 144m and a future tax deductible on parts of the purchase price of DKK 22m.

**Goodwill**
Goodwill is recognised at the amount by which the calculated purchase price exceeds the fair value of identifiable net assets. The estimated goodwill can be attributed to 1) Invendo's know-how in the field of gastrointestinal endoscopy, 2) cost and revenue synergies, 3) synergies from future product development and 4) assessed first-mover benefits within gastrointestinal single-use endoscopy. Of the reported components of goodwill, the management attaches the greatest importance to nos 3 and 4. The recognised goodwill is not deductible for tax purposes.

At the end of Q1, recognised goodwill from the acquisition of Invendo amounted to DKK 904m. In the final fair value on acquisition, the value has been reduced to DKK 711m due to a revaluation of net assets acquired and of the fair value of contingent consideration, see the table above.

**Contingent consideration**
The total purchase price comprises contingent consideration of up to DKK 819m, which was recognised at a fair value of DKK 501m as at the acquisition date.Assumptions have been applied in the management's fair value measurement which are not observable in the market, corresponding to a level 3 measurement in the fair value hierarchy. The management expects the agreed terms and conditions to be met, which means that the entire amount of DKK 819m must be paid to the seller. If a condition has not been met within four years of the acquisition date, Ambu's obligation in respect of the contingent consideration will lapse.

The contingent consideration relates to the commercialisation of the acquired technologies. Ambu's obligation to settle the contingent consideration is recognised at fair value and presented as a separate item in the balance sheet, i.e. contingent consideration. The difference between the fair value and the future payments of contingent consideration will be recognised in the income statement under net financials.

The development in the fair value of contingent consideration from the acquisition date until the balance sheet date is described in note 5.2.

The key assumptions in the valuation of the contingent consideration include future revenue from the acquired technologies, FDA approval of each endoscope as well as the discount rate of 18% applied.

| Contingent consideration | Condition | Undiscounted payment[1] |
|---|---|---|
| Milestone payment | FDA approval of colonoscope | DKK 0m or DKK 74m[2] |
| Milestone payment | FDA approval of gastroscope | DKK 0m or DKK 149m |
| Milestone payment | FDA approval of duodenoscope | DKK 0m or DKK 298m |
| Cumulative earn-out | Revenue of DKK 558m | DKK 0m or DKK 56m |
| Cumulative earn-out | 26% of revenue in the range DKK 558-1,488m | DKK 0m to DKK 242m |
| | | **Maximum DKK 819m** |

[1]The undiscounted payments were calculated at the acquisition date, and later outcomes have therefore not been adjusted in the payment intervals stated.
[2]Milestone payment related to FDA approval of colonoscope was paid to the seller in early April 2018.

**Impact on the group's income statement**
In the period from the acquisition date and until 30 September 2018, Invendo contributed DKK 0m to consolidated revenue and DKK -27m to the operating profit for the year (EBIT). Had Invendo been consolidated as from 1 October 2017, Invendo would have contributed DKK 0m to revenue and DKK -28m to the operating profit (EBIT).

# Section 4:
# Financial risk management, capital structure and net financials

This section provides an overview of Ambu's capital structure, net financials as well as a description of the measures taken by the management to prevent and reduce the financial risks to which Ambu is exposed.

Helped by a 22% (21%) increase in EBITDA, Ambu realised a debt multiple of 1.8 (1.4). The underlying net interest-bearing debt has increased from DKK 767m to DKK 1,245m. This is primarily ascribable to the acquisition of Invendo accounting for DKK 259m (cash flows of DKK 926m are partly financed through a capital increase of DKK 667m) as well as the arrangement of debt to finance the share buy-back programme of DKK 493m.

At the end of September 2018, interest-bearing debt corresponded to a weighted cost of capital of 1.4% (3.4%), which is partially fixed-interest. Read more in note 4.1.

Net financials were reduced by DKK 41m as a consequence of non-cash value adjustments of contingent consideration in the amount of DKK 71m. Current debt will result in underlying annual interest payments of DKK 15-20m.

| Debt multiple | Interest-bearing debt | Cost of capital |
|---|---|---|
| 1.8 of EBITDA | DKK 1,308m | 1.4% |
| +0.4 | DKK +522m | -2.0 %-points |

| Net financials |
|---|
| DKK -98m |
| DKK -41m |

## 4.1 Financial risk management

Ambu is exposed to certain market risks, including foreign exchange and interest rate fluctuations as well as fluctuations in prices of raw materials. Furthermore, the group is exposed to liquidity and financing risks as well as credit risks. A more detailed description of relevant financial risks is given below.

*Foreign currency risks*
Fluctuations in foreign exchange rates and the effect of foreign exchange fluctuations on the group's financial targets are continuously monitored by Ambu's Corporate Accounting department. See note 2.6 for further information about foreign currency risks.

*Interest rate risks*
It is group policy to hedge material interest rate risks in respect of the group's loans. Hedging is normally done through interest rate swaps converting floating-rate loans into fixed-rate loans.

The group's credit facilities carry floating interest rate. The development in interest rates is linked to CIBOR 3 months.

For the purpose of partially hedging the group's interest rate risk, the management has entered into a DKK 500m interest rate swap involving receipt of CIBOR 3 months and payment of a fixed interest rate. This instrument does not contain a 'floor' on CIBOR 3 months, as is the case for the secured debt. Despite the lack of a 'floor' in the hedging instrument, the management deems that an economic relationship exists as an interest rate increase is deemed to be more likely than a further decline in interest rates, and has therefore decided to apply the rules set out in IFRS 9 on hedge accounting. The ineffective part of the hedging instrument is calculated as the part of the interest payments and fair value adjustments that have been derived from a negative interest rate for CIBOR 3 months.

In the course of the year, the hedge accounting has been reset following the refinancing of the secured debt. As at the balance sheet date, the hedging instrument has a negative fair value of DKK 7m. The entire value has been recognised in the income statement, of which DKK 6m has been recognised in FY 2017/18.

A likely decline in interest rates of 0.25 percentage points will result in an expense of DKK 4m in the income statement, whereas a likely increase in interest rates of 0.75 percentage points will result in income of DKK 12m, with DKK 2m being recognised in the income statement and DKK 10m being recognised in other comprehensive income.

*Prices of raw materials*
The group is exposed to developments in the prices of raw materials used in production. With effect from FY 2018/19, the management has chosen not to hedge the price of silver as its development is no longer deemed to have a significant impact on the group's production costs due to changes in the product mix.

*Liquidity and financing risks*
Financing and sufficient liquidity are fundamental to Ambu's continued operation and growth. Liquidity is managed centrally from Ambu's head office. No cash-pool solutions are applied, but intercompany loans have been extended by Ambu A/S to a few subsidiaries.

The objective of the cash management is to ensure a return for the shareholders and to ensure that adequate and flexible cash resources are being maintained, thus enabling Ambu to honour its current obligations, such as repaying loans and settling other liabilities.

The liquidity risk is countered by a consistent focus on budgeted and realised cash flow.

To cover the group's liquidity needs, an agreement on credit facilities for a total of DKK 2,300m has been entered into.The facilities carry floating interest, the minimum interest rate being 0.8-1.3%, depending on the group's gearing. To hedge the interest rate risk, DKK 500m of the debt has been hedged through an interest rate swap up until 1 March 2022 at a fixed interest rate of between 1.28% and 1.83%, depending on gearing. The credit facilities are bullet loans which expire on 31 March 2023.

The cash resources consist of unutilised credit facilities in banks of DKK 1,188m (2017: DKK 1,043m).

*Credit risks*
Ambu is exposed to credit risks in respect of bank deposits and trade receivables. The maximum credit risk corresponds to the carrying amount.

Cash is not deemed to be subject to any credit risks as the company's primary banks are SIFI banks.

Outstanding trade receivables are monitored on a regular basis in accordance with the company's debtor policy, which is based on concrete debtor assessments of private customers. Public-sector customers are an important part of the company's receivables, and it is believed that no debtor risks are associated with public-sector customers. No material changes were made during the financial year with regard to provisions for bad debts nor were any material losses ascertained. Reference is made to note 3.5.

DKKm

## 4.2 Financial instruments

| | Contractual cash flows | | | | |
|---|---|---|---|---|---|
| **2017/18** | **0-1 year** | **1-5 years** | **> 5 years** | **Total** | **Carrying amount** |
| Trade receivables | 478 | 0 | 0 | 478 | 478 |
| Other receivables | 19 | 0 | 0 | 19 | 19 |
| Cash | 63 | 0 | 0 | 63 | 63 |
| **Financial assets measured at amortised cost** | **560** | **0** | **0** | **560** | **560** |
| Provisions | 4 | 43 | 0 | 47 | 40 |
| Credit institutions | 11 | 1,239 | 0 | 1,250 | 1,200 |
| Finance leases | 6 | 26 | 103 | 135 | 108 |
| Trade payables | 194 | 0 | 0 | 194 | 194 |
| Other payables | 180 | 5 | 1 | 186 | 186 |
| **Financial liabilities measured at amortised cost** | **395** | **1,313** | **104** | **1,812** | **1,728** |
| Contingent consideration (level 3)[2] | 0 | 746 | 0 | 746 | 498 |
| **Financial liabilities stated at fair value in the income statement** | **0** | **746** | **0** | **746** | **498** |
| Derivative financial instruments (level 2)[2] | 4 | 10 | 0 | 14 | 7 |
| **Financial liabilities stated at fair value in other comprehensive income** | **4** | **10** | **0** | **14** | **7** |

| **2016/17** | **0-1 year** | **1-5 years** | **> 5 years** | **Total** | **Carrying amount** |
|---|---|---|---|---|---|
| Trade receivables | 437 | 0 | 0 | 437 | 437 |
| Other receivables | 14 | 5 | 0 | 19 | 14 |
| Cash | 19 | 0 | 0 | 19 | 19 |
| **Financial assets measured at amortised cost** | **470** | **5** | **0** | **475** | **470** |
| Provisions | 3 | 48 | 0 | 51 | 39 |
| Corporate bonds[1] | 724 | 0 | 0 | 724 | 700 |
| Finance leases | 5 | 19 | 78 | 102 | 86 |
| Trade payables | 160 | 0 | 0 | 160 | 160 |
| Other payables | 182 | 0 | 0 | 182 | 182 |
| **Financial liabilities measured at amortised cost** | **1,074** | **67** | **78** | **1,219** | **1,167** |
| Derivative financial instruments (level 2)[2] | 24 | 0 | 0 | 24 | 21 |
| **Financial liabilities stated at fair value in the income statement** | **24** | **0** | **0** | **24** | **21** |
| Derivative financial instruments (level 2)[2] | 4 | 14 | 0 | 18 | 8 |
| **Financial liabilities stated at fair value in other comprehensive income** | **4** | **14** | **0** | **18** | **8** |

[1]The fair value of corporate bonds amounted to DKK 710m as at 30 September 2017.

[2]Level 1: The fair value of financial instruments traded on active markets is based on the listed market prices at the balance sheet date. The listed price is used for the group's financial assets as the current purchase price.

Level 2: The fair value of financial instruments which are not traded in an active market (e.g. over-the-counter derivatives) is determined using ordinary valuation methods.

Level 3: If no observable market data are available, the instrument is included in the last category.

## 4.2 Financial instruments (continued)

**Financial instruments measured at fair value**

At the end of the financial year, it is assessed whether an instrument has moved between the levels of the fair value hierarchy. There have been no movements between the various levels this year or the year before.

For an overview of this year's movements in financial instruments at level 3 of the fair value hierarchy, see note 5.2.

***Methods and assumptions for the determination of fair value***

*Derivative financial instruments*

Derivative financial instruments are recognised at fair value based on a valuation report prepared by an external party who valuates the instruments based on discounted cash flows.

*Contingent consideration*

Contingent consideration is recognised at fair value by discounting expected cash flows based on contractual conditions and unobservable inputs such as the expected performance of the acquired assets.

***Contingent consideration recognised at fair value***

Ambu's contingent consideration is recognised and measured at fair value using unobservable data (level 3) and includes the contingent consideration from the acquisition of Invendo Medical GmbH. The contingent consideration relates to the commercialisation of the technologies acquired from Invendo Medical GmbH in October 2017. The key assumptions in the valuation of the contingent consideration include future revenue from the acquired technologies, FDA approval of each endoscope as well as the discount rate of 18% applied.

**§ Accounting policies**

Debt to credit institutions etc. is recognised at the date of borrowing at fair value corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the 'effective rate of interest method' so that the difference between the proceeds and the nominal value is recognised under financial expenses in the income statement for the duration of the loan term.

Derivative financial instruments are recognised as from the transaction date and are measured at fair value in the balance sheet. The fair value of derivative financial instruments is calculated on the basis of current market data as well as accepted valuation methods.

Changes in the part of the fair value of derivative financial instruments classified as and fulfilling the criteria for hedging future cash flows, and which, in an efficient manner, hedge changes in the value of the hedged item, are recognised in other comprehensive income and presented as a separate reserve for hedging transactions under equity until the hedged transaction is realised. At this time, gains or losses on such hedging transactions are transferred from equity and recognised under the same item as the hedged item. When hedging proceeds from future borrowings, the gains or losses on hedging transactions are, however, transferred from other comprehensive income over the term of the loan.

For derivative financial instruments which do not fulfil the conditions for treatment as a hedging instrument, changes in the fair value are recognised on an ongoing basis in the income statement. The capitalised remaining lease obligation in respect of finance leases, measured at amortised cost, is also recognised under financial liabilities.

Contingent consideration arising as a result of business combinations is recognised at fair value at the time of acquisition. The liability is subsequently adjusted to fair value on an ongoing basis.

Other liabilities are measured at amortised cost.

DKKm

## 4.3 Net financials

| | 2017/18 | 2016/17 |
|---|---|---|
| *Other financial income:* | | |
| Foreign exchange gains, net | 5 | 0 |
| Fair value adjustment, contingent consideration | 0 | 3 |
| Fair value adjustment, swap | 7 | 10 |
| **Financial income** | **12** | **13** |

| | 2017/18 | 2016/17 |
|---|---|---|
| *Interest expenses:* | | |
| Interest expenses, banks | 18 | 7 |
| Interest expenses, leases | 2 | 2 |
| Interest expenses, bonds | 11 | 24 |
| *Other financial expenses:* | | |
| Foreign exchange loss, net | 0 | 33 |
| Fair value adjustment, contingent consideration | 71 | 0 |
| Effect of shorter discount period, acquisition of technology | 3 | 3 |
| Ineffectiveness of interest rate swap | 5 | 1 |
| **Financial expenses** | **110** | **70** |

**§ Accounting policies**
Financial income and expenses comprise interest, exchange gains and losses, write-downs of payables and transactions in foreign currencies, amortisation of financial assets and liabilities, including finance lease commitments. The timing effect and fair value adjustment of contingent consideration and the purchase price payable are classified under net financials.

## 4.4 Net interest-bearing debt

| | 2017/18 | 2016/17 |
|---|---|---|
| Credit institutions | 1,200 | 0 |
| Finance leases | 104 | 83 |
| **Long-term interest-bearing debt** | **1,304** | **83** |
| Corporate bonds | 0 | 700 |
| Finance leases | 4 | 3 |
| **Short-term interest-bearing debt** | **4** | **703** |
| **Weighted average effective rate of interest** | **1.4%** | **3.4%** |

The table below shows the composition of group's net interest-bearing debt.

| | 2017/18 | 2016/17 |
|---|---|---|
| Interest-bearing debt | 1,308 | 786 |
| Cash | -63 | -19 |
| **Net interest-bearing debt** | **1,245** | **767** |

DKKm

## 4.5 Share capital and treasury shares

*Share split*

At Ambu's annual general meeting on 13 December 2017, it was decided to carry out a 1:5 share split with effect from January 2018. After the split, Ambu's shares have a nominal value of DKK 0.50 each. All relevant ratios have been restated to reflect the share split.

*Share capital*

Ambu's share capital is divided into two classes of shares with a nominal share value of DKK 0.50. A Class A share carries 10 votes per share, while a Class B share carries one vote per share. There is no difference between the economic rights pertaining to the individual share classes. All shares are paid in full.

| | Class A shares | | Class B shares | | Number of shares | |
|---|---|---|---|---|---|---|
| | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** |
| Number of shares issued, beginning of year | 6,864,000 | 6,864,000 | 41,843,920 | 41,506,720 | 48,707,920 | 48,370,720 |
| Capital increase, private placement | 0 | 0 | 1,255,000 | 0 | 1,255,000 | 0 |
| Capital increase, warrants | 0 | 0 | 2,000 | 0 | 2,000 | 0 |
| 1:5 share split | 27,456,000 | 0 | 172,403,680 | 0 | 199,859,680 | 0 |
| Capital increase, warrants | 0 | 0 | 1,450,000 | 337,200 | 1,450,000 | 337,200 |
| **Number of shares issued at end of year** | **34,320,000** | **6,864,000** | **216,954,600** | **41,843,920** | **251,274,600** | **48,707,920** |

*Capital increases*

In November 2017, a private placement was carried out to partially finance the acquisition of Invendo. As a consequence hereof, Ambu's share capital was increased by a nominal amount of DKK 3m through the issue of 1,255,000 Class B shares with a nominal value of DKK 2.50 each at a price of 537.00, which, less consultancy costs of DKK 7m, resulted in proceeds for the company of DKK 667m. These shares were included in the subsequent 1:5 share split.

Four times in the course of FY 2017/18, capital increases were effected in connection with the exercise by employees of warrants allocated in 2013 and 2014. In consequence hereof, Ambu's share capital was increased by a nominal amount of DKK 730,000 through the issue of 1,452,000 Class B shares.

The total capital increase for the year consisting of 1,257,000 Class B shares of DKK 2.50 per share before the share split and additions after the share split of 1,450,000 Class B shares has been paid at a weighted price of DKK 91.28 per share with a nominal share value of DKK 0.50.

*Treasury shares*

| | No. | | Nominal value | | In % of share capital | |
|---|---|---|---|---|---|---|
| | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** |
| Treasury shares, beginning of year | 1,206,888 | 1,365,472 | 3.0 | 3.4 | 2.5% | 2.8% |
| Disposals | -75,699 | 0 | -0.1 | 0.0 | -0.1% | 0.0% |
| 1:5 share split | 4,524,756 | 0 | - | - | - | - |
| Additions, share buy-back programme | 3,850,000 | 17,240 | 1.9 | 0.0 | 1.5% | 0.0% |
| Disposals | -1,767,526 | -175,824 | -0.9 | -0.4 | -0.7% | -0.3% |
| Dilutive effect of capital increases | - | - | - | - | -0.1% | 0.0% |
| **Treasury shares, end of year** | **7,738,419** | **1,206,888** | **3.9** | **3.0** | **3.1%** | **2.5%** |

Treasury shares have been acquired to cover option and employee share programmes (collectively 'LTI plans'). The total purchase price for the year amounted to DKK 493m, corresponding to a weighted price of DKK 128.11 per share. With the current portfolio of treasury shares, all allocated LTI plans have been covered. The portfolio of and transactions with treasury shares only include Class B shares.

Disposals of treasury shares during the year can be ascribed to the exercise of allocated option schemes by employees as well as the establishment of an employee share programme. The total selling price in 2017/18 amounted to DKK 25m, corresponding to a weighted price of DKK 9.43 per share based on a nominal share value of DKK 0.50.

**§ Accounting policies**

Acquisition costs and consideration as well as dividend on treasury shares are recognised directly in retained earnings under equity. Proceeds from the sale of treasury shares and the issue of shares in Ambu A/S in connection with the exercise of share options, and from the sale of employee shares or warrants are taken directly to equity.

DKKm

## 4.6 Earnings per share

| | 2017/18 | 2016/17 |
|---|---|---|
| Net profit for the year | 337 | 301 |
| Average number of Class A and Class B shares in circulation ('000) | 242,997 | 236,943 |
| Dilutive effect of outstanding share option, warrant and employee share programmes ('000) | 4,704 | 6,025 |
| **Average number of outstanding Class A and Class B shares including the dilutive effect of share options, warrants and employee shares ('000)** | **247,701** | **242,968** |
| Earnings per DKK 0.50 share (EPS) in DKK | 1.39 | 1.27 |
| Diluted earnings per DKK 0.50 share (EPS-D) in DKK | 1.36 | 1.24 |

Comparative figures have been restated as a result of the share split carried out in January 2018.

**§ Accounting policies**

Earnings per share are presented as both earnings per share and diluted earnings per share. Earnings per share are calculated as the net profit for the year divided by the average number of outstanding shares. Diluted earnings per share are calculated as the net profit for the year divided by the sum of the average number of outstanding shares including the dilutive effect of outstanding share options, warrants and employee shares that are 'in the money'. The dilutive effect of share options, warrants and employee shares that are 'in the money' is calculated as the difference between the number of shares that could be acquired at fair value for the proceeds from the exercise of the share options and allocated warrants as well as employee shares offset against the share of the Black-Scholes value not yet recognised.

# Section 5:
# Provisions, other liabilities etc.

Section 5 includes statutory notes and notes of secondary importance to understanding Ambu's financial results and financial position.

Proposed dividend

DKK 0.40/share

+8%

Treasury shares (no.)

7.7 million

+1.7 million

DKKm

## 5.1 Provisions

| | 2017/18 | 2016/17 |
|---|---|---|
| Provisions as at 1 October | 39 | 38 |
| Used during the year | -3 | -1 |
| Value adjustment | 3 | 3 |
| Foreign currency translation adjustment | 1 | -1 |
| **Provisions as at 30 September** | **40** | **39** |
| | | |
| **Provisions expected to fall due:** | | |
| Non-current liabilities | 36 | 36 |
| Current liabilities | 4 | 3 |
| **Provisions as at 30 September** | **40** | **39** |

Provisions at the balance sheet date concern the deferred purchase price relating to the acquisition of technologies in previous years.

During the financial year, Ambu settled provisions in the amount of DKK 3m (DKK 1m) relating to the deferred purchase price for the acquisition of technologies in previous years. The value adjustment for the year, which can be ascribed to the shorter discount period, amounted to DKK 3m (DKK 3m).

**§ Accounting policies**

Provisions are recognised when the group, as a result of an event having occurred before or on the balance sheet date, has incurred a legal or actual liability, and it is probable that economic benefits will flow from the group in order to settle the liability. If the effect of the time value of money is significant, provisions are discounted using a before-tax discount rate. When applying a discount rate, the change in provisions due to the timing is recognised as a finance cost.

DKKm

## 5.2 Contingent consideration

| | 2017/18 | 2016/17 |
|---|---|---|
| Contingent consideration as at 1 October | 0 | 3 |
| Additions in connection with acquisition | 501 | 0 |
| Used during the year | -75 | 0 |
| | | |
| *Adjustments made through the income statement under financial expenses:* | | |
| Reversal of unused amounts | 0 | -3 |
| Value adjustment | 71 | 0 |
| Foreign currency translation adjustment | 1 | 0 |
| **Contingent consideration as at 30 September** | **498** | **0** |
| | | |
| **Contingent consideration expected to fall due:** | | |
| Non-current liabilities | 498 | 0 |
| Current liabilities | 0 | 0 |
| **Contingent consideration as at 30 September** | **498** | **0** |

Contingent consideration as at the balance sheet date concerns outstanding liabilities relating to the acquisition of Invendo during the year. For more information about the expected realisation of the liabilities and any associated uncertainties, reference is made to note 3.9. During the financial year, Ambu paid contingent consideration of DKK 75m in connection with the first milestone payment concerning the acquisition of Invendo.

Reversal of unused amounts in 2016/17 concerns the remeasurement of the earn-out agreement to the order of DKK 3m.The value adjustment for the year covers the effect of the shorter discount period amounting to DKK 77m as well as a revaluation of assumptions on recognition amounting to DKK -6m.

**§ Accounting policies**
Contingent consideration is recognised at fair value at the acquisition date by discounting expected cash flows based on contractual conditions and unobservable inputs, corresponding to level 3 in the fair value hierarchy. Adjustments to fair value are recognised in the income statement under net financials.

## 5.3 Operating leases

| | 2017/18 | 2016/17 |
|---|---|---|
| Payments due within 0-1 year | 30 | 31 |
| Payments due within 1-5 years | 27 | 46 |
| Payments due after 5 years | 1 | 0 |
| **Total operating leases** | **58** | **77** |
| | | |
| Operating leases expensed in the income statement | 33 | 31 |

Operating leases have been entered into with Danish and foreign lease companies and with an original lease period of up to 5 years, being non-terminable on the part of both parties. The leases are normally renewable for a minimum of one year at a time, and the lease payments are normally fixed throughout the term of the lease. The lease commitment has been calculated on the basis of the payments falling due during the term of the lease.

## 5.4 Contingent liabilities and other contractual liabilities

*Contingent liabilities*

Ambu's ongoing operations and the use of Ambu's products in hospitals and clinics etc. involve the general risk of claims for damages and sanctions against Ambu. The risk is deemed to be customary for the industry.

Ambu is involved from time to time in disputes with customers and patients about Ambu's products. Appropriate provisions are made on an ongoing basis, and product liability insurance has been taken out. The management believes that the likely outcomes of these disputes can be covered by the provisions made and recognised in the balance sheet as at 30 September 2018. For a more detailed description of the group's risks, see the 'Risk management' section on pages 26-27.

*Other contractual liabilities*

A change-of-control clause exists in respect of committed borrowing facilities, which constitute the main part of Ambu's loan financing. Change-of-control remuneration to members of the Executive Board is subject to a maximum value corresponding to two years' remuneration.

## 5.5 Share-based payment

The Board of Directors is authorised by the general meeting to allocate the various components of the Executive Board's total remuneration package, including the long-term incentive-based remuneration ('LTI') in the form of share-based payment, as generally set out in the company's guidelines for incentive-based remuneration from December 2014 and described in more detail in the company's 'Remuneration policy' from December 2017. Reference is also made to the 'Remuneration' section on pages 32-35 in the management's review. Applicable guidelines and policies can be found at www.ambu.com.

Share-based payment to employees other than members of the Executive Board (other members of the Executive Management Team, middle managers and key employees) are allocated in accordance with internal guidelines laid down by the company's remuneration committee. The company's Board of Directors does not participate in the group's share-based payment schemes.

As at 3 January 2018, Ambu completed a 1:5 share split, resulting in a new denomination of DKK 0.50 per share. The number of options, the exercise price and the fair value per option at the time of allocation relating to schemes allocated prior to this share split have been restated. Read more about the share split, the portfolio of treasury shares and the cover of outstanding options in the management's review on page 36.

For all share-based payment schemes, vesting is preconditional upon employment during the entire vesting period. For all share options, final vesting is preconditional upon full or partial realisation of predetermined targets for organic growth and EBIT margin. Under LTI plan 2013, LTI plan 2015, LTI plan 2016 as well as Warrants 2016/17, predetermined targets for free cash flow before acquisitions also apply. The financial results realised in FY 2017/18 equate to 93% of the performance targets defined for the '2017/18, spot' scheme and the first year of the 'Strategy 2020' scheme resulting in the proportionate final vesting of options. Consequently, 7% of the conditional allocation is cancelled. For 'LTI plan 2015', the performance targets were realised in full, resulting in full vesting of the options.

Share options may be exercised for up to three years after the three-year vesting period, with the exception of the share options allocated under the 'Big Five' scheme, where the exercise period is postponed by 12 months to be counted from the date of maturation on 1 October 2020. Information about allocations made in the past two years is provided in the 'Share options', 'Warrants' and 'Employee shares' sections below. Furthermore, the assumptions for the valuation of the LTI plans at the time of the conditional allocation applied are described.

**Share options, Executive Management Team**

The company's Executive Board has two LTI plans related to performance targets in the current strategy period: 'Strategy 2020' and 'Big Five'. Other members of the company's Executive Management Team participate in both LTI plans. 'Strategy 2020' is a three-year plan with annual allocations of share options conditional on the full or partial realisation of annual financial targets and with a subsequent three-year vesting period. 'Big Five' is a three-year plan with one allocation of share options conditional on the full or partial realisation of the financial targets defined in the overall Big Five strategy plan, which will be calculated in 2020. The allocated options mature on 1 October 2020 followed by a 12-month waiting period before the start of three-year exercise period.

*'Strategy 2020' LTI plan*

Under the 'Strategy 2020' LTI plan, a maximum of 1,083,408 Class B shares can vest in the Executive Management Team, including 980,546 Class B shares in the Executive Board. The maximum allocation is vested if the financial outlook for organic growth and EBIT margin for the year announced at the beginning of the year is exceeded to a significant degree ('Maximum'). If the financial performance corresponds to the outlook announced, 50% of the maximum ('On-target') allocation is vested, and if this target is not reached, allocation will be further reduced or lapse ('Threshold'). For FY 2017/18, 93% of the financial targets (organic growth of 'Approx. 13%' and an EBIT margin of 'Approx. 20%') were realised, resulting in the final vesting of 281,723 options, including 248,710 options for the Executive Board.

*'Big Five' LTI plan*

Under the 'Big Five' programme, a maximum of 1,770,924 Class B shares can vest in the Executive Management Team, including 1,618,073 Class B shares in the Executive Board. Maximum allocation is vested in full if the financial targets for organic growth for the 'Big Five' strategy period and the EBIT margin for FY 2019/20 are exceeded to a significant degree ('Maximum'). If the announced targets for the strategy period are realised, 50% of the maximum ('On-Target') allocation is vested, and if the 'On-target' allocation is not reached, allocation will be further reduced or lapse ('Threshold').

The realisation of organic growth and EBIT margin targets is measured individually as follows: If 'Maximum' is realised for one financial target and 'Threshold' is realised for the other, 50% of the total allocation is vested. The allocation is adjusted on a relative basis in the intervals between the various scenarios, as shown in the table below.

The management expects a target realisation of 52.3%, corresponding to 885,450 share options, which has resulted in an expense in 2017/18 of DKK 4m.The various financial targets and the corresponding allocation of options on realisation of the targets set out in the 'Big Five' LTI plan:

| | Scenarios | | |
|---|---|---|---|
| | Threshold | On target | Maximum |
| Average organic growth in the 'Big Five' strategy period (CAGR)[1] | 13% | 15% | 19% |
| EBIT margin[1] | 26% | 28% | 30% |
| Number of allocated options | 0 | 845,864 | 1,691,727 |
| Fair value of the 'Big Five' scheme at the time of the conditional allocation (DKKm) | 0 | 13 | 26 |

[1]Calculated before the effect of Invendo and any subsequent acquisitions.

## 5.5 Share-based payment (continued)

*'LTI plan 2015' and 'LTI plan 2016'*
Upon expiry of 'LTI plan 2013', Ambu introduced a new share option scheme consisting of 1,448,540 share options for the Executive Management Team in November 2015 ('LTI plan 2015'). The Executive Board's share of this scheme in case of maximum target realisation is 1,169,610 share options. Vesting of the maximum allocation of options is conditional on the realisation of financial targets in each of the financial years 2015/16, 2016/17 and 2017/18. The targets are determined by the Board of Directors on a year-by-year basis and are published in the annual report prior to the vesting year.

In November 2016, Ambu introduced a new share option scheme consisting of 48,155 share options ('LTI plan 2016') aimed at two members of the Executive Management Team who did not participate fully in 'LTI plan 2015'. Vesting of the maximum allocation of options is conditional on the same financial targets being met as under 'LTI plan 2015'.

The Executive Management Team realised the targets in full in 2015/16, 2016/17 and 2017/18, and the maximum allocation of 490,580, 454,150 and 439,780 share options were thus vested under 'LTI plan 2015', while 21,330 share options were vested in 2016/17 under 'LTI plan 2016'. Following a resignation in the Executive Management Team in 2017/18, 64,030 share options were cancelled under 'LTI plan 2015', and 26,825 share options were cancelled under 'LTI plan 2016'.

**Share options, other managers and key employees**
*'Strategy 2020' and '2017/18, spot' LTI plans*
Other managers and key employees participate on equal terms with members of the Executive Management Team in the 'Strategy 2020' LTI plan, under which a total of 945,003 share options have been conditionally allocated for the period, but not vested. The financial results realised in 2017/18 equate to 93% of the announced financial outlook, resulting in the allocation of 298,765 share options.

In 2017/18, 40,721 share options were conditionally allocated to selected employees not included in Ambu's LTI plans on a permanent annual basis, of which 93% were subsequently vested, corresponding to 37,871 share options. The share options under '2017/18, spot' have been allocated on the same conditions as those of the first year of 'Strategy 2020'.

All share-based payment schemes are equity-based schemes, which are presented per instrument below.

| | **2017/18** | **2016/17** |
|---|---|---|
| Share options | 18 | 3 |
| Warrants | 3 | 6 |
| Employee shares | 5 | 2 |
| **Total costs for share-based payment in the income statement** | **26** | **11** |

*General terms and conditions for share option programmes in the current and the previous financial year:*

| **Scheme** | **LTI plan 2015** | **LTI plan 2016** | **LTI plan 2015** | **2017/18, spot** | **Strategy 2020** | **Big Five** |
|---|---|---|---|---|---|---|
| Year of allocation | 2016/17 | 2016/17 | 2017/18 | 2017/18 | 2017/18 | 2017/18 |
| Original number of conditionally allocated options | 454,150 | 48,155 | 439,780 | 40,721 | 2,028,411 | 1,770,924 |
| Number of options expected to vest | 454,150 | 21,330 | 439,780 | 37,871 | 1,949,811 | 885,450 |
| Fair value per option at the time of conditional allocation (DKK) | 5.01 | 12.32 | 21.68 | 22.50 | 22.49 | 15.12 |
| Fair value at the time of conditional allocation of original number of conditionally allocated options (DKKm) | 2 | 1 | 10 | 1 | 46 | 27 |
| Fair value at the time of conditional allocation of the number of options expected to vest (DKKm) | 2 | 0 | 10 | 1 | 44 | 13 |
| Service period in which the fair value, calculated at the time of conditional allocation, is amortised | Nov. 2015 to Oct. 2019 | Oct. 2016 to Sep. 2019 | Nov. 2015 to Oct. 2020 | Oct. 2017 to Sep. 2020 | Oct. 2017 to Sep. 2022 | Oct. 2017 to Sep. 2020 |

*Black-Scholes assumptions used to calculate the fair value at the time of allocation:*

| | | | | | | |
|---|---|---|---|---|---|---|
| Exercise price | DKK 42.42 | DKK 77.12 | DKK 45.80 | DKK 124.10 | DKK 124.10-DKK 134.10 | DKK 134.10 |
| Volatility | 25% | 30% | 30% | 30% | 30% | 30% |
| Risk-free interest rate | 0.1% | -0.5% | -0.1% | -0.3% | -0.2% | -0.2% |
| Dividend per share | DKK 0.19 | DKK 0.31 | DKK 0.30 | DKK 0.53 | DKK 0.53 | DKK 0.53 |
| Period | 4.5 years | 3.5 years | 5.5 years | 3.5 years | 3.5-5.5 years | 4.5 years |
| Probability | 100% | 100% | 100% | 100% | 100% | 75% |

## 5.5 Share-based payment (continued)

The table below shows the number of outstanding share options, weighted on the basis of exercise prices and changes during the year, for the Executive Board, other managers and key employees as well as total figures for both groups:

| | **Executive Board** | | **Other managers and key employees** | | **Total** | |
|---|---|---|---|---|---|---|
| *(Exercise price (avg.) stated in DKK)* | No. | Exercise price (avg.) | No. | Exercise price (avg.) | No. | Exercise price (avg.) |
| **Outstanding share options as at 1 Oct. 2016** | **4,859,410** | **17.44** | **1,738,260** | **14.77** | **6,597,670** | **21.21** |
| Allocated during the year | 0 | - | 48,150 | 77.12 | 48,150 | 77.12 |
| Exercised during the year | -430,440 [1] | 9.33 | -362,475 [2] | 9.33 | -792,915 | 12.45 |
| Cancelled during the year | 0 | - | 0 | - | 0 | 40.13 |
| **Outstanding share options as at 30 Sept. 2017** | **4,428,970** | **18.23** | **1,423,935** | **18.27** | **5,852,905** | **32.38** |
| Allocated during the year | 2,598,619 | 130.73 | 1,241,437 | 125.13 | 3,840,056 | 128.92 |
| Exercised during the year | -1,371,461 [1] | 9.11 | -720,970 [2] | 9.75 | -2,092,431 | 9.33 |
| Cancelled during the year | -18,720 | 114.90 | -232,782 | 98.39 | -251,502 | 99.62 |
| **Outstanding share options as at 30 Sept. 2018** | **5,637,408** | **71.99** | **1,711,620** | **88.47** | **7,349,028** | **75.83** |

[1] The average market price on the date of exercise by the Executive Board was DKK 140.88 (2016/17: DKK 61.66).

[2] The average market price on the date of exercise by the other managers and key employees was DKK 132.70 (2016/17: DKK 69.72).

**Warrants**

With effect from 2017/18, warrant-based LTI plans will no longer be allocated to senior and key employees, but will be replaced by share options. A warrant entitles the holder to buy a newly issued Class B share in Ambu A/S.

*General terms and conditions for the warrant programme in FY 2016/17, including a list of outstanding warrants:*

The one warrant programme which has been vested and allocated during the past two years is shown below.

| | |
|---|---|
| Year of allocation and vesting | 2016/17 |
| Original number of allocated warrants | 419,500 |
| Number of warrants expected to vest | 419,500 |
| Fair value per option at the time of allocation | 12.32 |
| Vesting period | 3 years |
| Fair value at the time of allocation (DKKm) | 5 |
| Service period in which the Black-Scholes value is amortised | Oct. 2016 to Sep. 2019 |
| *Black-Scholes assumptions:* | |
| Average exercise price | DKK 77.12 |
| Probability/volatility | 100%/30% |
| Risk-free interest rate | -0.5% |
| Dividend per share | DKK 0.31 |
| Period | 3.5 years |

| | **Other managers and key employees** | |
|---|---|---|
| *(Exercise price (avg.) stated in DKK)* | No. | Exercise price (avg.) |
| **Outstanding share options as at 1 Oct. 2016** | **4,671,000** | **21.21** |
| Allocated during the year | 419,500 | 77.12 |
| Exercised during the year | -1,686,000 [1] | 12.45 |
| Cancelled during the year | -27,500 | 40.13 |
| **Outstanding share options as at 30 Sept. 2017** | **3,377,000** | **32.38** |
| Allocated during the year | 0 | - |
| Exercised during the year | -1,460,000 [1] | 21.99 |
| Cancelled during the year | -5,000 | 77.12 |
| **Outstanding share options as at 30 Sept. 2018** | **1,912,000** | **40.20** |

[1] The average market price on the date of exercise was DKK 151.03 (2016/17: DKK 62.80

**Employee shares**

For the past two years, Ambu has offered employee shares to all its employees, excluding the Board of Directors, giving employees the opportunity to participate in the programme with a fixed percentage of their annual salary. By offering employee shares, the management wishes to engage the employees in the group's future value creation. The number of shares with which an employee participates in the programme are matched free of charge after two years.

| | **2017/18** | **2016/17** |
|---|---|---|
| Employee shares allocated (no. of shares) | 53,590 | 86,180 |
| Total market value at the time of allocation (DKKm) | 6 | 5 |
| Service period in which the Black-Scholes value is amortised | Oct. 2017 to Sep. 2019 | Oct. 2016 to Sep. 2018 |
| *Black-Scholes assumptions:* | | |
| Average exercise price | DKK 107.98 | DKK 56.04 |

## 5.5 Share-based payment (continued)

The following table shows outstanding share-based payment schemes, including employee shares as at 30 September 2018, for the Executive Board, other members of the Executive Management Team as well as other employees. Number of years until contract expiry, exercise price (DKK) and market value (DKKm) have been calculated on the basis of weighted outstanding portfolios:

| | Allocated | Exercised | Cancelled | Total | Of which matured, but not exercised | Remaining no. of years until contract expiry[2] | Exercise price (DKK) | Market value (DKKm)[3] |
|---|---|---|---|---|---|---|---|---|
| **Executive Board** | | | | | | | | |
| *Lars Marcher:* | | | | | | | | |
| LTI plan 2013 | 2,751,880 | -1,071,461 | 0 | 1,680,419 | 1,680,419 | 2.0 | 9.80 | 243 |
| LTI plan 2015 | 790,465 | 0 | 0 | 790,465 | - | 4.1 | 42.49 | 88 |
| Strategy 2020 | 766,134 | 0 | -15,191 | 750,943 | - | 6.1 | 125.23 | 22 |
| Big Five | 1,245,954 [1] | 0 | 0 | 1,245,954 | - | 6.0 | 134.10 | 25 |
| Employee shares | 3,050 | 0 | 0 | 3,050 | - | 0.5 | 0.00 | 0 |
| *Michael Højgaard:* | | | | | | | | |
| LTI plan 2013 | 1,307,140 | -1,099,660 | 0 | 207,480 | 207,480 | 2.3 | 10.08 | 30 |
| LTI plan 2015 | 379,145 | 0 | 0 | 379,145 | - | 4.1 | 42.49 | 42 |
| Strategy 2020 | 214,412 | 0 | -3,529 | 210,883 | - | 6.2 | 125.88 | 6 |
| Big Five | 372,119 [1] | 0 | 0 | 372,119 | - | 6.0 | 134.10 | 8 |
| Employee shares | 1,430 | 0 | 0 | 1,430 | - | 0.5 | 0.00 | 0 |
| | 7,831,729 | -2,171,121 | -18,720 | 5,641,888 | | | | 464 |
| **Other members of the Executive Management Team** | | | | | | | | |
| LTI plan 2013 | 2,043,730 | -1,667,850 | 0 | 375,880 | 375,880 | 2.3 | 10.08 | 54 |
| LTI plan 2015 | 278,930 | 0 | -64,030 | 214,900 | - | 3.9 | 41.73 | 24 |
| LTI plan 2016 | 48,155 | 0 | -26,825 | 21,330 | - | 4.1 | 77.12 | 2 |
| Strategy 2020 | 102,862 | 0 | -37,388 | 65,474 | - | 5.7 | 121.90 | 2 |
| Big Five | 152,851 [1] | 0 | -79,197 | 73,654 | - | 6.0 | 134.10 | 1 |
| Employee shares | 1,660 | 0 | 0 | 1,660 | - | 0.5 | 0.00 | 0 |
| | 2,628,188 | -1,667,850 | -207,440 | 752,898 | | | | 83 |
| **Key, senior and other employees** | | | | | | | | |
| Strategy 2020 | 945,003 | 0 | -22,492 | 922,511 | - | 6.0 | 124.46 | 28 |
| 2017/18, spot | 40,721 | 0 | -2,850 | 37,871 | - | 5.0 | 114.90 | 1 |
| Warrants 2013 | 2,000,000 | -1,590,000 | -260,000 | 150,000 | 150,000 | 1.2 | 13.26 | 21 |
| Warrants 2014 | 2,000,000 | -1,300,000 | -100,000 | 600,000 | 600,000 | 2.2 | 23.06 | 79 |
| Warrants 2015 | 770,000 | 0 | -15,000 | 755,000 | - | 3.1 | 39.26 | 87 |
| Warrants 2016 | 419,500 | 0 | -12,500 | 407,000 | - | 4.1 | 77.12 | 31 |
| Employee shares | 133,630 | 0 | 0 | 133,630 | - | 0.5 | 0.00 | 21 |
| | 6,308,854 | -2,890,000 | -412,842 | 3,006,012 | | | | 268 |
| **Outstanding as at 30 Sept. 2018** | **16,768,771** | **-6,728,971** | **-639,002** | **9,400,798** | | | | **815** |

[1] See the 'Share options' section above for information about realisation of targets set out in the 'Big Five' LTI plan, describing that the management does not expect final vesting of all allocated options.

[2] Including 'exercise period'.

[3] Market values have been calculated on the basis of full allocation of LTI plans not yet vested.

**§ Accounting policies**

Ambu's share-based payment has been treated in accordance with the rules on equity-based schemes where the fair value of the allocated schemes at the time of allocation is calculated according to the Black-Scholes model. This value is expensed over the service period for each of the respective schemes and is taken to equity. On recognition of the fair value during the service period, account is taken of the number of employees who are expected to obtain a final right to the schemes, including the conditions to which the allocation is subject. This estimate is reassessed at the end of a period so that only the number of rights expected to be vested are recognised. Adjustments relating to previous periods are recognised in the period in which the adjustment is made.

## 5.6 Fee to auditors appointed by the annual general meeting

| | 2017/18 | 2016/17 |
|---|---|---|
| Audit fee | 2 | 2 |
| Other assurance engagements | 0 | 0 |
| Tax consultancy services | 0 | 4 |
| Other services | 0 | 1 |
| **Total fees** | **2** | **7** |

At the annual general meeting in December 2017, EY was appointed auditor for the group, taking over from PwC.

## 5.7 Companies in the Ambu group

This note shows the legal entities which are consolidated in the consolidated financial statements.

| | | | | Activity | | | |
|---|---|---|---|---|---|---|---|
| **Company** | **Reg. office** | **Currency** | **Ownership interest** | Sales[1] | Production[2] | Develop-ment | Other |
| *Parent company:* | | | | | | | |
| Ambu A/S | Denmark | DKK | 100% | x | x | x | x |
| *Subsidiaries:* | | | | | | | |
| Ambu Australia Pty. Ltd. | Australia | AUD | 100% | x | | | |
| Ambu Ltd. | UK | GBP | 100% | x | | | |
| Ambu Sarl | France | EUR | 100% | x | | | |
| Ambu B.V. | Netherlands | EUR | 100% | x | | | |
| Ambu India Private Limited | India | INR | 100% | x | | | |
| ETView Medical Ltd. | Israel | NIS | 100% | | | | x |
| ETView Ltd. | Israel | NIS | 100% | | x | x | |
| Ambu s.r.l. | Italy | EUR | 100% | x | | | |
| Ambu KK | Japan | JPY | 100% | x | | | |
| Ambu Ltd. | China | CNY | 100% | | x | x | |
| Ambu (Xiamen) Trading Co., Ltd. | China | CNY | 100% | x | | | |
| Ambu Sdn. Bhd. | Malaysia | MYR | 100% | | x | x | |
| Ambu Mexico, S.A. DE C.V. | Mexico | MXN | 100% | | | | x |
| Firma Ambu, S.L.[3] | Spain | EUR | 100% | x | | | |
| Ambu GmbH | Germany | EUR | 100% | x | | | |
| Invendo Medical GmbH | Germany | EUR | 100% | | | x | |
| Ambu Inc. | USA | USD | 100% | x | | | |
| King Systems Holding Inc. | USA | USD | 100% | | | | x |
| King Systems Corp. | USA | USD | 100% | | x | x | |
| ETView Inc. | USA | USD | 100% | | | | x |
| Invendo Inc. | USA | USD | 100% | | | | x |

[1]Sales include promotional activities.

[2]Production includes the purchase of goods for resale and the coordination thereof.

[3]Firma Ambu, S.L. has sales and marketing activities in Spain, Portugal and Latin America.

## 5.8 Related parties

The group's related parties include the company's Board of Directors and Executive Board and members of their families. Related parties further include enterprises in which the above-mentioned persons have a significant interest.

During the year, no transactions, except for payment of the management's remuneration (notes 2.2 and 5.5), have been carried out with the Board of Directors, Executive Board, major shareholders or other related parties.

## 5.9 Subsequent events

No material events have occurred in the period between the end of the financial year and the Board of Directors' approval of the annual report.

## 5.10 Adoption of the annual report and distribution of profit

At the board meeting on 13 November 2018, the Board of Directors approved the annual report presented. Subsequently, the annual report will be presented to Ambu A/S's shareholders for adoption at the annual general meeting on 12 December 2018. The Board of Directors proposes that dividend of DKK 0.40 per share be paid. In 2016/17, the Board of Directors proposed a dividend payment of DKK 0.37 per share, which was later distributed to Ambu A/S's shareholders.

| | **2017/18** | **2016/17** |
|---|---|---|
| Proposed dividend for the year | 101 | 90 |
| Transferred to distributable reserves | 236 | 211 |
| | **337** | **301** |

**§ Accounting policies**
Proposed dividend is recognised as a liability at the time of adoption by the general meeting. Expected dividend payable for the year is shown as a separate reserve under equity.

## 5.11 Key figure and ratio definitions

| | |
|---|---|
| ***Income statement*** | |
| Gross margin, % | Gross profit in % of revenue. |
| EBITDA | Operating profit before depreciation, amortisation and impairment losses. |
| Operating profit (EBIT) | Profit for the year before net financials and tax |
| Capacity costs | Selling and distribution costs, development costs, management and administrative expenses as well as other operating income and expenses. |
| ***Balance sheet*** | |
| Net working capital | Inventories, trade receivables, other receivables and prepayments less trade payables and other payables. |
| Interest-bearing debt | Debt on which interest is paid, including bank debt, debt to credit institutions, lease debt and corporate bonds, but not trade payables. |
| Net interest-bearing debt (NIBD) | Interest-bearing debt less cash. |
| ***Cash flows*** | |
| Cash flows from operating activities | Cash flows from operating activities as defined in IAS 7. |
| Cash flows from investing activities before acquisitions of enterprises and technology | Cash flows from investing activities as defined in IAS 7 excluding cash flows for the acquisition of technologies and enterprises. |
| Free cash flows before acquisitions of enterprises and technology | The sum of cash flows from operating activities and cash flows from investing activities before acquisitions of enterprises and technology. |
| Acquisitions of enterprises and technology | Cash flows from the acquisition of enterprises and technologies, including payment to the seller and payment of earn-outs less cash in acquired enterprises. |

## 5.11 Key figure and ratio definitions (continued)

| | |
|---|---|
| ***Key figures and ratios*** | |
| Organic growth | Development in revenue, adjusted for fluctuations in foreign exchange rates and the effect of acquisitions, in the past 12 months in % of revenue in the period of comparison. |
| Endoscopes | Single-use endoscopes.<br>Currently, endoscopes comprise the following product groups: Ambu® aScope™, Isiris™, VivaSight™, invendoscope™ SC210 and Ambu® vScope™. |
| Growth in endoscopes sold | The development in the number of endoscopes sold in % of the number of endoscopes sold in the period of comparison. |
| Rate of cost | Capacity costs in % of revenue. |
| Tax rate | Tax for the year relative to the profit before tax. |
| EBITDA margin | EBITDA in % of revenue. |
| EBIT margin | EBIT in % of revenue. |
| Liquid development costs for the year | Development costs for the year in the income statement before related amortisation and depreciation with the subsequent addition of investments in development projects for the year, cash flows for the acquisition of technology and other rights which can be attributed to development activities. |
| Return on equity | Net profit/loss for the year for a rolling 12-month period in relation to average equity. |
| NIBD/EBITDA | Net interest-bearing debt/EBITDA. |
| Equity ratio | Equity's share of total assets at end of year. |
| Investments, % of revenue | Cash flows from investing activities, including assets disposed of, in % of revenue. |
| Net working capital, % of revenue | Inventories, trade receivables, other receivables and prepayments<br>less trade payables and other payables in % of revenue. |
| Return on invested capital (ROIC) | EBIT for a rolling 12-month period less the group's expected long-term tax rate relative to the average equity plus the average net interest-bearing debt. |
| ***Share-related ratios*** | |
| Earnings per share (EPS) | Earnings per share for the year, calculated in accordance with IAS 33. |
| Diluted earnings per share (EPS-D) | Diluted earnings per share, calculated in accordance with IAS 33. |
| Cash flow per share | Cash flows from operating activities relative to number of shares at end of year. |
| Equity value per share | Total equity relative to number of shares at end of year. |
| Dividend per share | Dividend relative to number of shares at end of year. |
| Pay-out ratio | Dividend as a percentage of net profit/loss for the year. |
| P/E ratio | Market price relative to earnings per share (EPS). |

# Statements and reports


Ambu has grown over the years. Both organically and through acquisitions. The largest acquisitions have been Medicotest A/S (2001), King Systems Inc. (2013) and Invendo Medical GmbH (2017).

# Management's statement

On this day, the Board of Directors and the Executive Board have considered and approved the annual report of Ambu A/S for the financial year 1 October 2017 to 30 September 2018.

The annual report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the financial statements give a true and fair view of the group's and the company's assets, equity and liabilities and financial position as at 30 September 2018, and of the results of the group's and the company's operations and cash flows for the financial year 1 October 2017 to 30 September 2018.

In our opinion, the management's review includes a fair account of the development and performance of the group and the company, the results for the year and of the group's and the company's financial position, together with a description of the principal risks and uncertainties that the group and the company face.

The annual report is submitted for adoption by the annual general meeting.

Copenhagen, 13 November 2018

**Executive Board**

| | |
|---|---|
| Lars Marcher<br>President & CEO | Michael Højgaard<br>CFO |

**Board of Directors**

| | | |
|---|---|---|
| Jens Bager<br>Chairman | Mikael Worning<br>Vice-Chairman | Oliver Johansen |
| Allan Søgaard Larsen | Christian Sagild | Henrik Ehlers Wulff |
| Thomas Lykke Henriksen<br>Elected by the employees | Jakob Koch<br>Elected by the employees | Jakob Bønnelykke Kristensen<br>Elected by the employees |

# Independent auditor's report

**To the shareholders of Ambu A/S**

## Opinion

We have audited the consolidated financial statements and the parent company financial statements of Ambu A/S for the financial year 1 October 2017 – 30 September 2018, page 45-90 and page 97-109, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 30 September 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 October 2017 – 30 September 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

**Appointment of auditor**
We were appointed as auditor of Ambu A/S on 13 December 2017 for the financial year 2017/18.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2017/18. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

**Accounting for the acquisition of Invendo Medical GmbH**
On 25 October 2017, Invendo Medical GmbH (“Invendo”) was acquired by Ambu A/S for a total consideration of DKK 1.679 million.

Management has assessed the fair value of assets and liabilities acquired in the business combination.

As there is a significant level of judgement involved in estimating the fair value of especially intangible assets, deferred taxes and the contingent consideration, we considered the fair value assessment of most significance in our audit.

Reference is made to note 3.9 to the consolidated financial statements.

We have assessed the assumptions and methodology used by Management to calculate the fair value of intangible assets against normally applied valuation methodologies.

We considered the approach taken by Management for the fair value of intangible assets, deferred taxes and the contingent consideration, assessed key assumptions and obtained corroborative evidence for the explanations provided by comparing key assumptions to market data, where available, underlying accounting records, our past experience of similar transactions and Management’s forecasts supporting the acquisition.

We also considered the adequacy of the disclosures provided by Management related to the acquisition of

Invendo, including the fair value of acquired intangible assets, deferred taxes and contingent consideration, compared to applicable accounting standards.

**Recognition of revenue via distributors for the US market**
In the US market, a significant portion of Ambu's sales flow through distributors (Third Party Warehouses or Dealers) who sell the products to public and private hospitals and clinics (the end-customers). Ambu's sales price to the distributor depends on the pricing arrangement Ambu has agreed with the end-customer.

As Ambu's sale to the end-customer deviates in amount and timing from the amount invoiced to the distributor Ambu subsequently adjusts the price stated in the preliminary invoice. Price adjustments are recognised on an ongoing basis, and price adjustments, which have not been settled at the balance sheet date, are recognised as a reduction in trade receivables in the balance sheet.

We focus on this area, as the assessment of non-settled price adjustments to distributors is complex and includes Management estimates and judgements.

Reference is made to note 2.1 Revenue to the consolidated financial statements.

We have identified and assessed key internal controls and related systems which are used to process and calculate discounts for distributors.

We assessed Management's calculation of price adjustments by comparing the assumptions applied with the group's trading policies, the terms of existing contracts, third-party reported data and historical discount levels.

We further made an assessment of the most significant parameters included in the calculation of the non-settled price adjustments as at 30 September 2018 based on historical data, accounting records and the terms of existing contracts.

**Valuation of intangible assets**
In connection with prior year's acquisitions including Invendo, the Ambu group has acquired technologies, trademarks and customer relations as acquired technologies under construction totalling DKK 807m as of 30 September 2018.

The value of intangible assets is determined in connection with the purchase price allocation. In case of indications of impairment, an impairment test is prepared, based on Management's estimates of the future value based on an assessment of future cash flows on the basis of strategic plans, long-term growth and discount rate.

Due to the inherent uncertainty involved in determining the net present value of future cash flows, we considered these impairment tests to be a key audit matter.

Reference is made to note 3.2 Impairment test to the consolidated financial statements.

Our audit procedures included testing the mathematical accuracy of the discounted cash flow model and comparing forecasted profitability to internally approved budgets.

We evaluated the assumptions and methodologies used in the discounted cash flow model, in particular those relating to the forecasted revenue growth and EBIT margin, including comparing with historical growth rates.

Further, we evaluated the sensitivity analysis on the assumptions applied in the valuations prepared by Management.

## Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

## Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

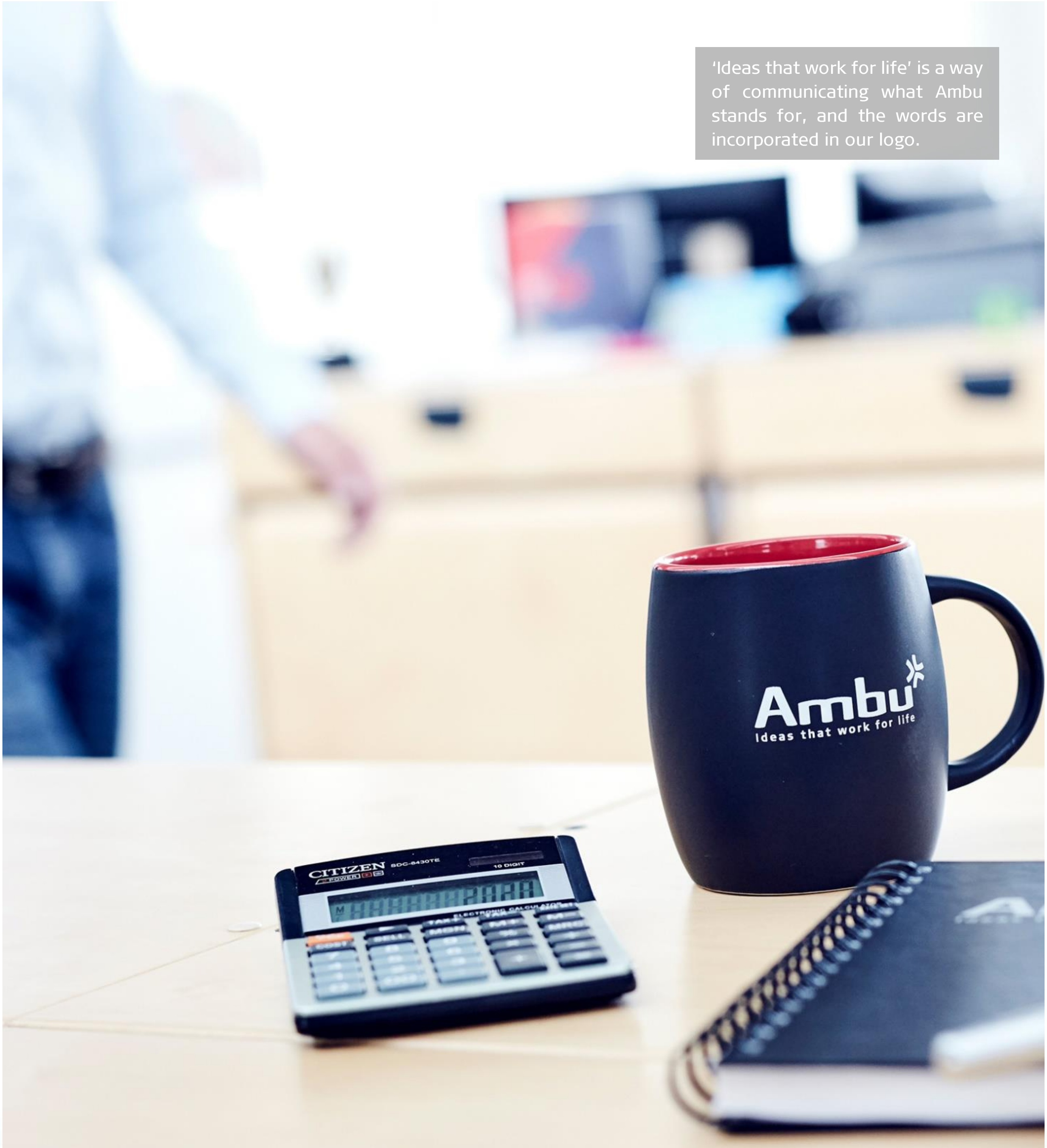
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 13 November 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

| | |
|---|---|
| Søren Skov Larsen<br>State Authorised<br>Public Accountant<br>MNE no.: mne26797 | Henrik Pedersen<br>State Authorised<br>Public Accountant<br>MNE no.: mne35456 |

# Financial statements 2017/18 – Parent company






'Ideas that work for life' is a way of communicating what Ambu stands for, and the words are incorporated in our logo.

# Income statement and statement of comprehensive income – Parent company

Ambu A/S Financial statements

DKKm

| **Income statement** | **Note** | **2017/18** | **2016/17** |
|---|---|---|---|
| Revenue | | 1,714 | 1,545 |
| Production costs | 2.1, 2.2 | -936 | -850 |
| **Gross profit** | | **778** | **695** |
| Selling and distribution costs | 2.1, 2.2 | -121 | -108 |
| Development costs | 2.1, 2.2 | -68 | -56 |
| Management and administration | 2.1, 2.2 | -161 | -143 |
| Other operating expenses | 2.3 | 0 | -4 |
| **Operating profit (EBIT)** | | **428** | **384** |
| Financial income | 4.2 | 101 | 136 |
| Financial expenses | 4.2 | -107 | -64 |
| **Profit before tax** | | **422** | **456** |
| Tax on profit for the year | 2.4 | -109 | -72 |
| **Net profit for the year** | | **313** | **384** |

| **Statement of comprehensive income** | **2017/18** | **2016/17** |
|---|---|---|
| Net profit for the year | 313 | 384 |
| Other comprehensive income: | | |
| *Adjustment to fair value for the year:* | | |
| Cash flow hedging, realisation of previous years' deferred gains/losses | 1 | -3 |
| Cash flow hedging, reclassification to the income statement | 5 | 0 |
| Cash flow hedging, deferred gains/losses for the year | 0 | -6 |
| Tax on hedging transactions | -1 | 2 |
| **Other comprehensive income after tax** | **5** | **-7** |
| **Comprehensive income for the year** | **318** | **377** |

# Balance sheet – Parent company

Ambu A/S Financial statements

DKKm

| Assets | Note | 30.09.18 | 30.09.17 |
|---|---|---|---|
| Completed development projects | 3.1 | 105 | 122 |
| Rights | 3.1 | 820 | 183 |
| Goodwill | 3.1 | 147 | 147 |
| Development projects in progress | 3.1 | 127 | 32 |
| **Intangible assets** | | **1,199** | **484** |
| **Property, plant and equipment** | 3.2 | **133** | **108** |
| Investments in subsidiaries | 3.3 | 2,285 | 975 |
| Receivables from subsidiaries | 4.1 | 0 | 5 |
| Other receivables | 4.1 | 0 | 4 |
| Deferred tax asset | 2.5 | 2 | 27 |
| **Other non-current assets** | | **2,287** | **1,011** |
| **Total non-current assets** | | **3,619** | **1,603** |
| Inventories | 3.4, 4.1 | 85 | 84 |
| Trade receivables | 3.5, 4.1 | 85 | 78 |
| Receivables from subsidiaries | 4.1 | 499 | 455 |
| Income tax receivable | | 5 | 0 |
| Other receivables | 4.1 | 6 | 5 |
| Prepayments | | 15 | 8 |
| Cash | 4.1 | 12 | 1 |
| **Total current assets** | | **707** | **631** |
| **Total assets** | | **4,326** | **2,234** |

| Equity and liabilities | Note | 30.09.18 | 30.09.17 |
|---|---|---|---|
| Share capital | | 126 | 122 |
| Other reserves | | 1,544 | 983 |
| **Equity** | | **1,670** | **1,105** |
| Provisions | 4.1, 5.1 | 36 | 36 |
| Contingent consideration | 4.1, 5.2 | 473 | 0 |
| Interest-bearing debt | 4.1 | 1,305 | 83 |
| Payables to subsidiaries | | 600 | 0 |
| **Non-current liabilities** | | **2,414** | **119** |
| Provisions | 4.1, 5.1 | 4 | 3 |
| Interest-bearing debt | 4.1 | 3 | 703 |
| Trade payables | 4.1 | 59 | 48 |
| Payables to subsidiaries | 4.1 | 128 | 159 |
| Income tax | | 1 | 16 |
| Other payables | 4.1 | 40 | 52 |
| Derivative financial instruments | 4.1 | 7 | 29 |
| **Current liabilities** | | **242** | **1,010** |
| **Total liabilities** | | **2,656** | **1,129** |
| **Total equity and liabilities** | | **4,326** | **2,234** |

# Cash flow statement – Parent company

Ambu A/S Financial statements

DKKm

| | Note | 2017/18 | 2016/17 |
|---|---|---|---|
| Operating profit (EBIT) | | 428 | 384 |
| Adjustment of items with no cash flow effect | 3.6 | 73 | 54 |
| Changes in net working capital | 3.7 | 469 | 50 |
| Interest income and similar items | | 94 | 123 |
| Interest expenses and similar items | | -31 | -65 |
| Income tax paid | | -17 | -74 |
| **Cash flows from operating activities** | | **1,016** | **472** |
| | | | |
| Purchase of non-current assets | | -796 | -186 |
| Sale of non-current assets | | 0 | 16 |
| Divestment of subsidiary in respect of previous years | | 1 | 2 |
| Cash flows from investing activities before acquisitions of enterprises and technology | | -795 | -168 |
| | | | |
| **Free cash flows before acquisitions of enterprises and technology** | | **221** | **304** |
| | | | |
| Acquisition of technology | | -2 | 0 |
| Acquisitions of enterprises | | -859 | 0 |
| Cash flows from acquisitions of enterprises and technology | | -861 | 0 |
| | | | |
| **Cash flows from investing activities** | | **-1,656** | **-168** |
| | | | |
| **Free cash flows after acquisitions of enterprises and technology** | | **-640** | **304** |
| | | | |
| Redemption of corporate bonds | | -701 | 0 |
| Raising of long-term debt | | 1,960 | 0 |
| Repayment of debt to credit institutions | | -760 | -275 |
| Refund received in connection with the raising of lease debt | | 25 | 0 |
| Repayment in respect of finance leases | | -3 | -4 |
| Redemption of derivative financial instruments | | -12 | 0 |
| Exercise of options | | 20 | 8 |
| Purchase of treasury shares | | -493 | 0 |
| Sale of treasury shares, employee share programme | | 6 | 0 |
| Dividend paid | | -92 | -75 |
| Dividend, treasury shares | | 2 | 2 |
| Capital increase, Class B share capital | | 699 | 21 |
| **Cash flows from financing activities** | | **651** | **-323** |
| | | | |
| **Changes in cash and cash equivalents** | | **11** | **-19** |
| | | | |
| Cash and cash equivalents, beginning of year | | 1 | 20 |
| Translation adjustment of cash and cash equivalents | | 0 | 0 |
| **Cash and cash equivalents, end of year** | | **12** | **1** |
| | | | |
| **Cash and cash equivalents, end of year, are composed as follows:** | | | |
| Cash and cash equivalents | | 12 | 1 |
| Bank debt | | 0 | 0 |
| **Cash and cash equivalents, end of year** | | **12** | **1** |

# Statement of changes in equity – Parent company



DKKm

| | Share capital | Share premium | Reserve for hedging transactions | Reserve for foreign currency translation adjustment | Reserve for development costs | Retained earnings | Proposed dividend | Total |
|---|---|---|---|---|---|---|---|---|
| **Equity 1 October 2017** | **122** | **57** | **-5** | **5** | **51** | **785** | **90** | **1,105** |
| Net profit for the year | | | | | | 212 | 101 | 313 |
| Transferred to reserves | | | | | 62 | -62 | | 0 |
| Other comprehensive income for the year | | | 5 | -5 | | 5 | | 5 |
| **Total comprehensive income** | **0** | **0** | **5** | **-5** | **62** | **155** | **101** | **318** |
| *Transactions with the owners:* | | | | | | | | |
| Termination of reserve | | -752 | | | | 752 | | 0 |
| Share-based payment | | | | | | 17 | | 17 |
| Tax deduction relating to share options | | | | | | 88 | | 88 |
| Exercise of options | | | | | | 20 | | 20 |
| Purchase of treasury shares | | | | | | -493 | | -493 |
| Sale of treasury shares, employee share programme | | | | | | 6 | | 6 |
| Distributed dividend | | | | | | -2 | -88 | -90 |
| Dividend, treasury shares | | | | | | 2 | -2 | 0 |
| Share capital increase | 4 | 695 | | | | | | 699 |
| **Equity 30 September 2018** | **126** | **0** | **0** | **0** | **113** | **1,330** | **101** | **1,670** |

| | Share capital | Share premium | Reserve for hedging transactions | Reserve for foreign currency translation adjustment | Reserve for development costs | Retained earnings | Proposed dividend | Total |
|---|---|---|---|---|---|---|---|---|
| **Equity 1 October 2016** | **121** | **37** | **2** | **5** | **0** | **476** | **75** | **716** |
| Net profit for the year | | | | | | 294 | 90 | 384 |
| Transferred to reserves | | | | | 51 | -51 | | 0 |
| Other comprehensive income for the year | | | -7 | 0 | | | | -7 |
| **Total comprehensive income** | **0** | **0** | **-7** | **0** | **51** | **243** | **90** | **377** |
| *Transactions with the owners:* | | | | | | | | |
| Share-based payment | | | | | | 6 | | 6 |
| Tax deduction relating to share options | | | | | | 50 | | 50 |
| Exercise of options | | | | | | 8 | | 8 |
| Distributed dividend | | | | | | | -73 | -73 |
| Dividend, treasury shares | | | | | | 2 | -2 | 0 |
| Share capital increase | 1 | 20 | | | | | | 21 |
| **Equity 30 September 2017** | **122** | **57** | **-5** | **5** | **51** | **785** | **90** | **1,105** |

Other reserves are made up of share premium, reserve for hedging transactions, reserve for foreign currency translation adjustment, reserve for development costs, retained earnings and proposed dividend and total DKK 1,544m (2017: DKK 983m). Other reserves are free for distribution with the exception of the reserve for development costs.

As at 30 September 2018, the reserve for share premium not required by the Articles of Association has been dissolved through transfer to the reserve for retained earnings.

**§ Accounting policies**

*Reserve for development costs*

Contrary to the accounting policies applied in the consolidated financial statements, in accordance with the Danish Financial Statements Act Ambu A/S must tie up a reserve in equity, corresponding to the capitalised value of development costs (see note 3.1). The amortisation of the capitalised development costs as well as deferred tax is set off against this reserve.

DKKm

## 1.1 Basis of preparation

Ambu A/S is a public limited company domiciled in Denmark. Ambu A/S is the Parent company of the Ambu group.

The financial statements of the Parent company are included in the consolidated financial statements in accordance with the provisions of the Danish Financial Statements Act.

**General**

The financial statements of the Parent company are presented in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), IFRS as adopted by the EU as well as additional requirements in the Danish Financial Statements Act.

**Accounting policies – Parent company**

For information on accounting policies, reference is made to note 1.1 to the consolidated financial statements. In addition, the accounting policies of the Parent company are supplemented for the following items:

Statement of changes in equity – Parent company
3.3 Investments in subsidiaries
4.2 Net financials

For information relating to the Parent company, reference is made to the following notes in the consolidated financial statements:

3.2 Impairment test
4.5 Share capital and treasury shares
5.3 Contingent liabilities
5.4 Share-based payment
5.9 Subsequent events
5.10 Adoption of the annual report etc.

The accounting policies have been applied consistently in the preparation of the financial statements of the Parent company in the years presented. The accounting policies have been applied consistently with previous years. Comparative figures for revenue and production costs have been reduced by DKK 200m, leaving the gross profit for 2016/17 unaffected. The correction is due to changes to the system of registering intercompany payments. The comparative figures in note 5.5 for the sale and purchase of goods and services to/from subsidiaries have been reduced accordingly.

## 2.1 Staff costs

The staff costs of the parent company are distributed onto the respective functions as follows:

| | 2017/18 | 2016/17 |
|---|---|---|
| Production costs | 3 | 3 |
| Selling and distribution costs | 47 | 41 |
| Development costs | 38 | 28 |
| Management and administration | 98 | 86 |
| **Total staff costs** | **186** | **158** |

Staff costs are distributed between the Executive Board, the Board of Directors and other employees as follows:

| | 2017/18 | 2016/17 |
|---|---|---|
| Remuneration, Executive Board | 14 | 15 |
| Share-based payment | 12 | 2 |
| **Staff costs, Executive Board** | **26** | **17** |
| Wages and salaries | 138 | 123 |
| Pension contributions | 10 | 8 |
| Social security costs | 2 | 2 |
| Share-based payment | 3 | 3 |
| Share-based payment, employee shares | 2 | 1 |
| Remuneration, committees | 1 | 1 |
| Remuneration, Board of Directors | 4 | 3 |
| **Total staff costs** | **186** | **158** |
| Average number of employees | 207 | 181 |
| Number of full-time employees at the end of the year | 233 | 187 |

DKKm

## 2.2 Depreciation, amortisation and impairment losses on non-current assets

| | 2017/18 | 2016/17 |
|---|---|---|
| Amortisation of intangible development projects and rights | 48 | 40 |
| Depreciation of property, plant and equipment | 8 | 7 |
| Impairment losses on property, plant and equipment | 0 | 1 |
| **Total depreciation, amortisation and impairment losses** | **56** | **48** |

Depreciation, amortisation and impairment losses have been allocated to the following functions:

| | 2017/18 | 2016/17 |
|---|---|---|
| Selling and distribution costs | 1 | 1 |
| Development costs | 48 | 40 |
| Management and administration | 7 | 7 |
| **Total depreciation, amortisation and impairment losses** | **56** | **48** |

## 2.3 Other operating expenses

| | 2017/18 | 2016/17 |
|---|---|---|
| Integration costs, ETView | 0 | 4 |
| **Total other operating expenses** | **0** | **4** |

## 2.4 Tax on profit for the year

| | 2017/18 | 2016/17 |
|---|---|---|
| Current tax on profit for the year | -5 | 46 |
| Deferred tax on profit for the year | 115 | 30 |
| Adjustment of deferred tax in respect of previous years | -1 | -4 |
| **Total tax on profit for the year** | **109** | **72** |
| | | |
| *Tax on profit for the year comprises (%):* | | |
| Calculated 22.0% (2016/17: 22.0%) tax on profit for the year | 22.0 | 22.0 |
| Income not subject to tax | -0.1 | -6.1 |
| Non-deductible costs | 4.3 | 0.7 |
| Value adjustment of contingent consideration | 0.0 | -0.1 |
| Effect of shorter discount period | -0.1 | 0.0 |
| Tax adjustment in respect of previous years | -0.3 | -0.7 |
| **Effective tax rate** | **25.8** | **15.8** |

The group's transfer pricing setup is based on the widely used principal/agent model according to which Ambu A/S in its capacity of principal through financial ownership of the group's intangible assets etc. repatriate most of the group's profit for income taxation in Denmark.

Current tax on profit for the year amounted to DKK -5m, corresponding to -1% of the profit before tax, taking into account Ambu A/S's tax deduction relating to the intercompany purchase of rights. Furthermore, income tax payable as at 30 September 2018 is reduced by Ambu A/S's tax deduction resulting from the employees' gains from called warrants and share options. Such gains are subject to personal tax.

DKKm

## 2.5 Deferred tax

| | 30.09.18 | 30.09.17 |
|---|---|---|
| Deferred tax, beginning of year | -27 | -19 |
| Deferred tax on share-based payment recognised in equity | -89 | -34 |
| Deferred tax for the year recognised in the income statement | 115 | 30 |
| Change in respect of previous years | -1 | -4 |
| **Deferred tax at end of year** | **-2** | **-27** |
| | | |
| *Deferred tax relates to:* | | |
| Intangible assets | 237 | 78 |
| Property, plant and equipment | 2 | 2 |
| Current assets | 3 | 1 |
| Deferred tax on share-based payment recognised in equity | -81 | -106 |
| Provisions | -2 | 0 |
| Contingent consideration | -15 | 0 |
| Payables | -1 | -2 |
| Tax loss carry-forwards | -145 | 0 |
| | **-2** | **-27** |

## 3.1 Intangible assets

| 2017/18 | Completed development projects | Rights | Goodwill | Develop-ment projects in progress | Total |
|---|---|---|---|---|---|
| Acquisition price, beginning of year | 316 | 260 | 147 | 32 | 755 |
| Additions during the year | 0 | 661 | 0 | 102 | 763 |
| Disposals during the year | 0 | 0 | 0 | 0 | 0 |
| Transferred during the year | 7 | 0 | 0 | -7 | 0 |
| **Acquisition price, end of year** | **323** | **921** | **147** | **127** | **1,518** |
| | | | | | |
| Amortisation, beginning of year | 194 | 77 | 0 | 0 | 271 |
| Disposals during the year | 0 | 0 | 0 | 0 | 0 |
| Impairment losses for the year | 0 | 0 | 0 | 0 | 0 |
| Amortisation for the year | 24 | 24 | 0 | 0 | 48 |
| **Amortisation, end of year** | **218** | **101** | **0** | **0** | **319** |
| **Carrying amount, end of year** | **105** | **820** | **147** | **127** | **1,199** |

| 2016/17 | Completed development projects | Rights | Goodwill | Develop-ment projects in progress | Total |
|---|---|---|---|---|---|
| Acquisition price, beginning of year | 250 | 155 | 147 | 31 | 583 |
| Additions during the year | 0 | 105 | 0 | 67 | 172 |
| Disposals during the year | 0 | 0 | 0 | 0 | 0 |
| Transferred during the year | 66 | 0 | 0 | -66 | 0 |
| **Acquisition price, end of year** | **316** | **260** | **147** | **32** | **755** |
| | | | | | |
| Amortisation, beginning of year | 180 | 51 | 0 | 0 | 231 |
| Disposals during the year | 0 | 0 | 0 | 0 | 0 |
| Impairment losses for the year | 0 | 0 | 0 | 0 | 0 |
| Amortisation for the year | 14 | 26 | 0 | 0 | 40 |
| **Amortisation, end of year** | **194** | **77** | **0** | **0** | **271** |
| **Carrying amount, end of year** | **122** | **183** | **147** | **32** | **484** |

DKKm

## 3.2 Property, plant and equipment

| 2017/18 | Land and buildings | Plant and machinery | Other plant, fixtures and fittings, tools and equipm't | Prepay-ments and plant under construction | Total |
|---|---|---|---|---|---|
| Acquisition price, beginning of year | 92 | 1 | 62 | 4 | 159 |
| Additions during the year | 0 | 0 | 0 | 34 | 34 |
| Disposals during the year | -1 | 0 | -2 | 0 | -3 |
| Transferred during the year | 26 | 0 | 8 | -34 | 0 |
| **Acquisition price, end of year** | **117** | **1** | **68** | **4** | **190** |
| | | | | | |
| Depreciation and impairment losses, beginning of year | 3 | 1 | 47 | 0 | 51 |
| Disposals during the year | -1 | 0 | -1 | 0 | -2 |
| Impairment losses for the year | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the year | 2 | 0 | 6 | 0 | 8 |
| **Depreciation and impairment losses at end of year** | **4** | **1** | **52** | **0** | **57** |
| **Carrying amount, end of year** | **113** | **0** | **16** | **4** | **133** |

| 2016/17 | Land and buildings | Plant and machinery | Other plant, fixtures and fittings, tools and equipm't | Prepay-ments and plant under construction | Total |
|---|---|---|---|---|---|
| Acquisition price, beginning of year | 83 | 3 | 66 | 6 | 158 |
| Additions during the year | 89 | 0 | 0 | 12 | 101 |
| Disposals during the year | -81 | -2 | -17 | 0 | -100 |
| Transferred during the year | 1 | 0 | 13 | -14 | 0 |
| **Acquisition price, end of year** | **92** | **1** | **62** | **4** | **159** |
| | | | | | |
| Depreciation and impairment losses, beginning of year | 66 | 3 | 58 | 0 | 127 |
| Disposals during the year | -65 | -2 | -16 | 0 | -83 |
| Impairment losses for the year | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the year | 2 | 0 | 5 | 0 | 7 |
| **Depreciation and impairment losses at end of year** | **3** | **1** | **47** | **0** | **51** |
| **Carrying amount, end of year** | **89** | **0** | **15** | **4** | **108** |

## 3.3 Investments in subsidiaries

| | 2017/18 | 2016/17 |
|---|---|---|
| Acquisition price, beginning of year | 975 | 975 |
| Additions | 1,404 | 0 |
| Disposals | -94 | 0 |
| **Acquisition price, end of year** | **2,285** | **975** |
| | | |
| Carrying amount, end of year | 2,285 | 975 |

Disposals for the year concern dividends from subsidiaries.

Reference is made to note 5.7 to the consolidated financial statements for an overview of the company's subsidiaries.

**§ Accounting policies**
Investments in subsidiaries are measured at cost including goodwill. If there is any indication of impairment, an impairment test is carried out. Where the cost exceeds the recoverable amount, impairment is made to the lower value.

DKKm

## 3.4 Inventories

| | 30.09.18 | 30.09.17 |
|---|---|---|
| Raw materials and consumables | 0 | 0 |
| Finished goods | 85 | 84 |
| | **85** | **84** |
| Cost of sales for the year | 933 | 844 |
| Write-down of inventories included in production costs for the year | 1 | 0 |

## 3.5 Trade receivables

| | 30.09.18 | 30.09.17 |
|---|---|---|
| Not due | 74 | 69 |
| 1-90 days | 6 | 5 |
| 91-180 days | 1 | 1 |
| > 180 days | 4 | 3 |
| **Trade receivables** | **85** | **78** |
| At end of year, trade receivables were written down by | 3 | 3 |

## 3.6 Adjustment of items with no cash flow effect

| | 2017/18 | 2016/17 |
|---|---|---|
| Depreciation, amortisation and impairment losses | 56 | 48 |
| Share-based payment | 17 | 6 |
| | **73** | **54** |

## 3.7 Changes in net working capital

| | 2017/18 | 2016/17 |
|---|---|---|
| Changes in inventories | -1 | -12 |
| Changes in receivables | -12 | -5 |
| Changes in balances with group companies | 484 | 38 |
| Changes in trade payables etc. | -2 | 29 |
| | **469** | **50** |

DKKm

## 4.1 Categories of financial instruments

The parent company has recognised the following financial instruments:

| | 30.09.18 | 30.09.17 |
|---|---|---|
| Receivables from subsidiaries | 499 | 460 |
| Trade receivables | 85 | 78 |
| Other receivables | 6 | 9 |
| Cash | 12 | 1 |
| **Receivables and cash and cash equivalents** | **602** | **548** |
| Credit institutions | 1,200 | 0 |
| Corporate bonds | 0 | 700 |
| Provisions | 40 | 39 |
| Finance leases | 108 | 86 |
| Trade payables | 59 | 48 |
| Payables to subsidiaries | 728 | 159 |
| Other payables | 40 | 52 |
| **Financial liabilities recognised at amortised cost** | **2,175** | **1,084** |
| Contingent consideration (level 3) | 473 | 0 |
| Derivative financial instruments (level 2) | 0 | 23 |
| **Financial liabilities stated at fair value in the income statement** | **473** | **23** |
| Derivative financial instruments (level 2) | 7 | 6 |
| **Financial liabilities stated at fair value in other comprehensive income** | **7** | **6** |

The parent company's payables fall due as follows:

| 2017/18 | 0-1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|---|
| Credit institutions | 0 | 1,200 | 0 | 1,200 |
| Provisions | 4 | 36 | 0 | 40 |
| Contingent consideration | 0 | 473 | 0 | 473 |
| Finance leases | 3 | 15 | 90 | 108 |
| Other financial liabilities | 228 | 599 | 0 | 827 |
| Derivative financial instruments | 7 | 0 | 0 | 7 |
| | **242** | **2,323** | **90** | **2,655** |

| 2016/17 | 0-1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|---|
| Corporate bonds | 700 | 0 | 0 | 700 |
| Provisions | 3 | 36 | 0 | 39 |
| Finance leases | 3 | 13 | 70 | 86 |
| Other financial liabilities | 259 | 0 | 0 | 259 |
| Derivative financial instruments | 23 | 6 | 0 | 29 |
| | **988** | **55** | **70** | **1,113** |

DKKm

## 4.2 Net financials

| | 2017/18 | 2016/17 |
|---|---|---|
| *Interest income:* | | |
| Interest income, loans to subsidiaries | 1 | 0 |
| | | |
| *Other financial income:* | | |
| Foreign exchange gains, net | 13 | 0 |
| Dividend from subsidiaries | 80 | 123 |
| Fair value adjustment, contingent consideration | 0 | 3 |
| Fair value adjustment, swap | 7 | 10 |
| **Financial income** | **101** | **136** |

| | 2017/18 | 2016/17 |
|---|---|---|
| *Interest expenses:* | | |
| Interest expenses, banks | 18 | 6 |
| Interest expenses, leases | 2 | 2 |
| Interest expenses, bonds | 11 | 24 |
| | | |
| *Other financial expenses:* | | |
| Foreign exchange loss, net | 0 | 28 |
| Fair value adjustment, contingent consideration | 68 | 0 |
| Effect of shorter discount period, acquisition of technology | 3 | 3 |
| Ineffectiveness of interest rate swap | 5 | 1 |
| **Financial expenses** | **107** | **64** |

**§ Accounting policies**

Dividend from subsidiaries is recognised under financial income at the time the dividend is declared.

## 5.1 Provisions

| | 2017/18 | 2016/17 |
|---|---|---|
| Provisions as at 1 October | 39 | 38 |
| Used during the year | -3 | -1 |
| Value adjustment | 3 | 3 |
| Foreign currency translation adjustment | 1 | -1 |
| **Provisions as at 30 September** | **40** | **39** |
| | | |
| **Provisions expected to fall due:** | | |
| Non-current liabilities | 36 | 36 |
| Current liabilities | 4 | 3 |
| **Provisions as at 30 September** | **40** | **39** |

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## 5.2 Contingent consideration

| | 2017/18 | 2016/17 |
|---|---|---|
| Contingent consideration as at 1 October | 0 | 3 |
| Additions in connection with acquisition | 475 | 0 |
| Used during the year | -71 | 0 |
| | | |
| *Adjustments made through the income statement under financial expenses:* | | |
| Reversal of unused amounts | 0 | -3 |
| Value adjustment | 68 | 0 |
| Foreign currency translation adjustment | 1 | 0 |
| **Contingent consideration as at 30 September** | **473** | **0** |
| | | |
| **Contingent consideration expected to fall due:** | | |
| Non-current liabilities | 473 | 0 |
| Current liabilities | 0 | 0 |
| **Contingent consideration as at 30 September** | **473** | **0** |

## 5.3 Operating leases

| | 2017/18 | 2016/17 |
|---|---|---|
| Payments due within 0-1 year | 1 | 2 |
| Payments due within 1-5 years | 1 | 2 |
| Payments due after 5 years | 0 | 0 |
| **Total operating leases** | **2** | **4** |
| | | |
| Operating leases expensed in the income statement | 2 | 2 |

## 5.4 Fee to auditors appointed by the annual general meeting

| | 2017/18 | 2016/17 |
|---|---|---|
| Audit fee | 1 | 1 |
| Other assurance engagements | 0 | 0 |
| Tax consultancy services | 0 | 1 |
| Other services | 0 | 1 |
| **Total fees** | **1** | **3** |

At the annual general meeting in December 2017, EY was appointed auditor for the parent company, replacing PwC.

DKKm

## 5.5 Related parties

The Parent company's related parties include subsidiaries, the company's Board of Directors and Executive Board and members of their families. Related parties further include enterprises in which the above-mentioned persons have a significant interest.

Ambu A/S has engaged in the following important transactions with related parties:

| | 2017/18 | 2016/17 |
|---|---|---|
| Sale of goods and services to subsidiaries | 1,481 | 1,341 |
| Licences granted to subsidiary | 7 | 9 |
| Purchase of goods and services from subsidiaries | 883 | 817 |
| Transfer of rights from subsidiary | 661 | 105 |

During the year, no transactions, except for payment of the management's remuneration and intercompany transactions eliminated in the consolidated financial statements, have been carried out with the Board of Directors, Executive Board, senior employees, major shareholders or other related parties.

Outstanding balances and receivables in respect of related parties, essentially arising from ordinary business relations, i.e. the purchase and sale of goods and services, are included in the balance sheet of the Parent company. Such transactions are carried out on the same terms as apply to the group's other customers and suppliers. For information on the year's interest on intercompany loans, reference is made to note 4.2.

The Parent company has extended loans to a number of subsidiaries. The loans carry interest on market terms.

Guarantees have been provided to banks in respect of the subsidiaries. The subsidiaries have not furnished security for their debt to the Parent company.

| | 2017/18 | 2016/17 |
|---|---|---|
| Guarantees and security furnished on behalf of subsidiaries | 25 | 24 |

# Company announcements in 2017/18

| | |
|---|---|
| No. 1 | Ambu launches ambitious strategy towards 2020 |
| No. 2 | Ambu acquires Invendo Medical and enters market of 70 million gastro procedures annually |
| No. 3 | Annual report 2016/17 (Earnings release) |
| No. 4 | Ambu A/S to issue up to 1,255,000 Class B shares in a private placement |
| No. 5 | Pricing and further details on the offering of 1,255,000 Class B shares in Ambu A/S |
| No. 6 | Registration of the capital increase of 1,255,000 Class B shares completed |
| No. 7 | Major shareholder announcement |
| No. 8 | Capital increase in connection with exercise of warrants issued |
| No. 9 | Annual General Meeting in Ambu A/S |
| No. 10 | Ambu A/S – share split |
| No. 11 | Ordinary share option programme for the Executive Board and other members of the management group |
| No. 12 | Extraordinary share option programme for the Executive Board related to the Big Five strategy towards 2020 |
| No. 13 | Ambu receives FDA clearance for disposable colonoscope in the USA |
| No. 14 | Interim report Q1 2017/18 |
| No. 15 | Share buy-back to cover incentive programmes |
| No. 16 | Transactions according to share buy-back programme |
| No. 17 | Capital increase in connection with exercise of warrants |
| No. 18-28 | Transactions according to share buy-back programme |
| No. 29 | Completion of share buy-back programme |
| No. 30 | Interim report for Q2 2017/18 and for the half-year |
| No. 31 | Capital increase in connection with exercise of warrants |
| No. 32 | Interim report Q3 2017/18 |
| No. 33 | Capital increase in connection with exercise of warrants |
| No. 34 | Major shareholder announcement |
| No. 35 | Financial diary |

# Financial calendar 2018 and 2019

| | |
|---|---|
| 12.12.2018 | Annual general meeting |
| 03.01.2019 | Quiet period ending 31 January 2019 |
| 31.01.2019 | Interim report Q1 2018/19 |
| 03.04.2019 | Quiet period ending 1 May 2019 |
| 01.05.2019 | Interim report Q2 2018/19 |
| 25.07.2019 | Quiet period ending 22 August 2019 |
| 22.08.2019 | Interim report Q3 2018/19 |
| 30.09.2019 | End of FY 2018/19 |
| 16.10.2019 | Quiet period ending 13 November 2019 |
| 13.11.2019 | Annual report 2018/19 |
| 17.12.2019 | Annual general meeting |

**About Ambu**

Since 1937, breakthrough ideas have fuelled our work on bringing efficient healthcare solutions to life. This is what we create within our fields of excellence – Visualisation, Anaesthesia, and Patient Monitoring & Diagnostics. Millions of patients and healthcare professionals worldwide depend on the functionality and performance of our products. We are dedicated to improve patient safety and determined to advance single-use devices. The manifestations of our efforts range from early inventions like the Ambu Bag™ resuscitator and the legendary BlueSensor™ electrodes to our newest landmark solutions like the Ambu aScope™ – the world's first single-use flexible endoscope. Our commitment to bringing new ideas and superior service to our customers has made Ambu one of the most recognized medtech companies in the world. Headquartered near Copenhagen in Denmark, Ambu employs approximately 2,700 people in Europe, North America and the Asia Pacific. For more information, please visit www.ambu.com.

Ambu

Ideas that work for life